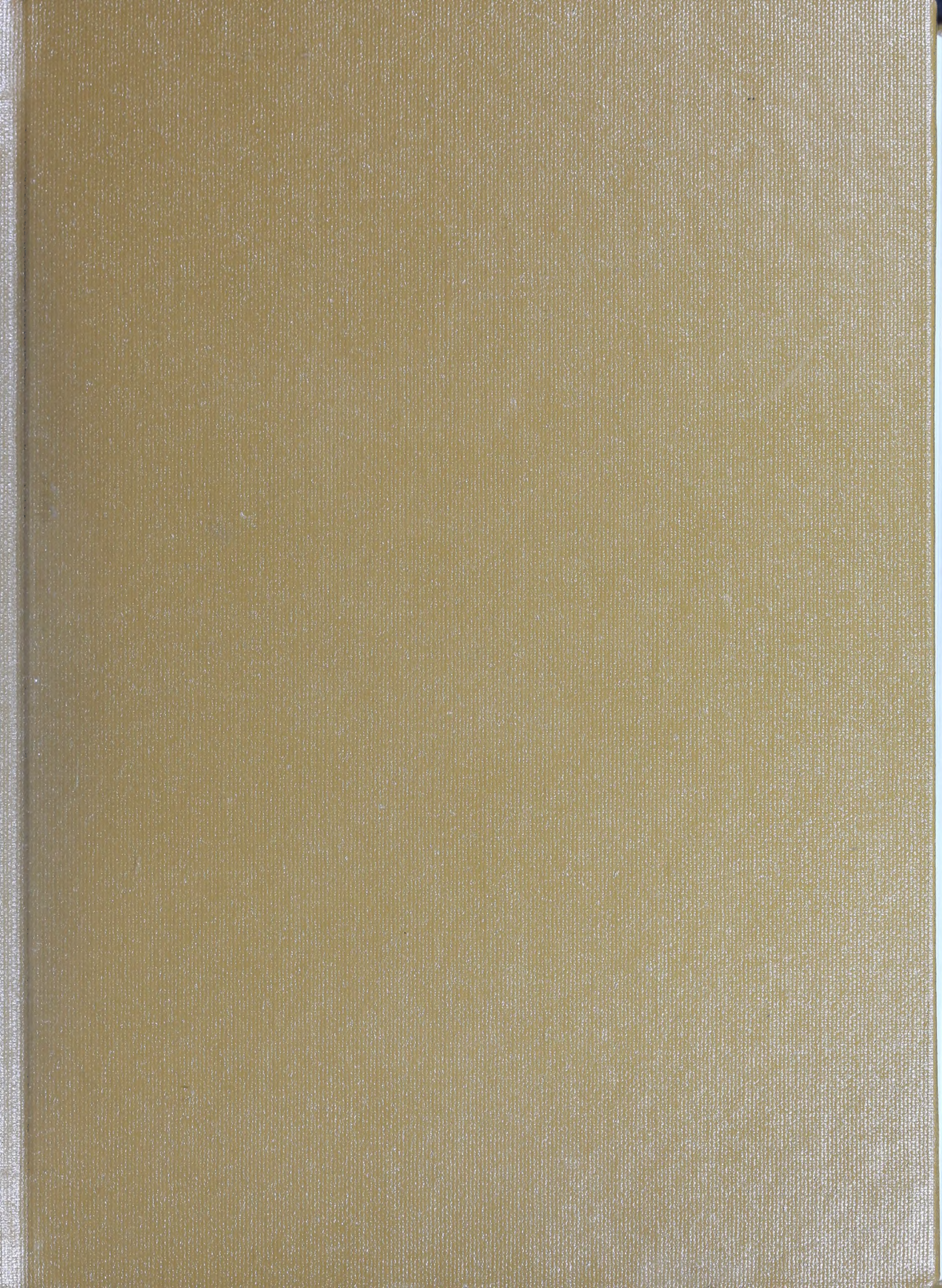






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three years. Can CEO
ummer Redstone
x his ailing
company?

SUMNER'S LAST STAND

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BusinessWeek

MARCH 3, 1997

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Sumner Redstone has a finger in almost everything at Viacom, and the visionary CEO is its greatest asset. Redstone says "the turnaround at Viacom is at hand," and he can show numbers to support that view. But a closer look reveals cracks in the company's base. Redstone has failed to cut Viacom's enormous debt or develop a grand strategy. Is he up to turning his company around?

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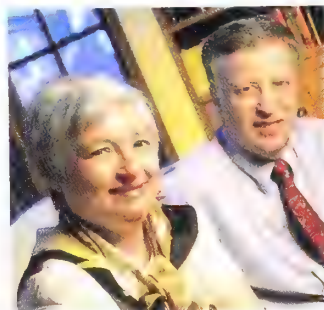


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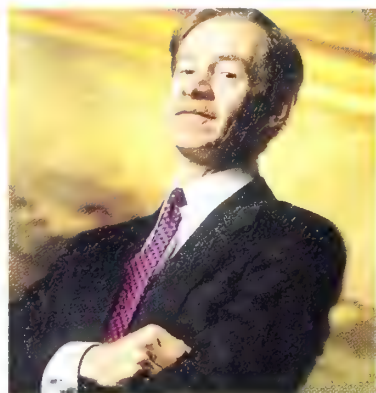
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Up Front

EDITED BY LARRY LIGHT



BACK-SCRATCHING

A DANGEROUS LIAISON IN BANKING

BANKERS TRUST CEO FRANK Newman was Deputy Treasury Secretary until September, 1995. So when he contacted Comptroller of the Currency Eugene Ludwig numerous times last year, he may have violated the government ethics law—which forbids ex-officials from contacting their former agencies on any official matter. The House banking subcommittee on oversight is investigating.

Newman, according to the

NEWMAN: panel, made \$2,000 to five phone calls to the Comptroller, the Treasury's key regulator, between May and August, 1996. On May 13, they had breakfast before attending a controversial White House coffee with 16 other bankers and top Democratic fund-raisers—an event Newman helped organize. And he took the Ludwigs to Carnegie Hall for a José Carreras concert May 16.

Subcommittee Chairman Spencer Bachus III (R-Ala.) wants to know if Newman solicited some of the \$446,000 in bankers' donations the DNC got after the coffee; \$75,000 of it came from BT. Newman declines to comment.

Ludwig says their talks were mainly social or on general banking topics. Last week, he repaid Newman \$2,000 for the concert tickets. While Bankers Trust as a state-chartered bank isn't regulated by the Comptroller, he is a major voice in legislation potentially affecting BT.

Paula Dwyer

BILL'S BUNCH

DID HERMAN WRITE HER OWN TICKET?

LABOR SECRETARY-DESIGNATE Alexis Herman, already flak-bait for her role in Democratic fund-raising, may have more explaining to do in her Senate confirmation hearings. New questions center on how she benefited from rules she helped write as a Labor Dept. official in the Carter years. The rules require federal construction projects to include minority owners.

In 1984, Herman received



a 3.3% interest for free in Washington's Market Square project, now worth between \$500,000 and \$1 million. Her defenders say there's no evidence of illegality since she was a private consultant at the time. The White House says she helped to write rules to promote

NOMINATED but under fire

women apprenticeships and that she can't recall working on minority-owner rules. Conservative activist Terry Eastland calls Herman "a symbol of what's wrong with affirmative action." Paula Dwyer

TALK SHOW "It would be wrong, erroneous, and a very dangerous thought. It would be very wrong...for anyone to make any judgment about the future of this investigation

—Special Prosecutor Kenneth Starr, discounting suggestions that his upcoming departure could end the Whitewater probe

WHEELER-DEALERS

HIGH NOON IN BIG D

TWO HIGH-OCTANE TEXAS billionaires are fussing over how to build Dallas' new sports arena, stymieing the project. The squabble over replacing cramped Reunion

Arena pits real estate developer Ross Perot Jr., majority owner of the Dallas Mavericks basketball team and son of You Know Who, against

financier Tom Hicks, proprietor of hockey's Dallas Stars.

Although both agree that building a basketball-hockey palace makes the most sense, each sometimes hints he will go it alone. (City-owned Reunion now hosts both teams.) The city government, which plans to share the costs of building the arena with the

teams, wants a compromise. Right now, though, are far apart. Hicks a more modest plan: a \$180 million arena, pricey luxury boxes in

two years since the trouble since the national Hockey League don't have a national TV contract to subsidize the Stars' less Reunion bonanza

Hicks. And Perot, by the NBA's juicy television contract, is in no hurry. He wants a \$1 billion megaplex, also featuring hotels, offices, condominiums, shopping. And while Hicks seeks a 50-50 arena ownership split, Perot is pushing for 51% for himself.

Stephanie Anderson For



ARENA FOES: Hicks, Perot

FAT WALLETS

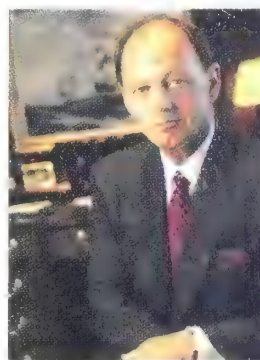
AN INSURER'S 3% SOLUTION

CONSECO CHAIRMAN STEPHEN Hilbert is getting a \$12 million cash bonus for 1996, up from '95's \$7.4 million. And the 1997 take will be even fatter: \$24 million, according to a Salomon Brothers estimate that factors in expected profits from the expansion-minded insurer's recent acquisitions. Since 1983, when the board set the bonus formula, Hilbert has sliced off 3% of pretax net profits.

But these lush bonuses (atop a flat \$250,000 yearly salary), which would make him among the best-compensated U.S. executives, draw fire from corporate-governance watchdogs. They believe Hilbert, who founded the company in 1979, owes his good fortune in part to a

mom-and-pop board structure. Company officers held five of its nine seats.

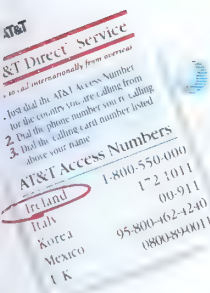
The board, if not his package, is changing. On March 19, the company replaced an insider with an outsider, a nonmanagement director in a 5-4 majority. Hilbert is apologetic about his pay, saying that Consec stock had soared 148% over the past year. He says: "It's the American way." Greg B.



HILBERT: A friendly board



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Up Front

AFTERLIVES

FOR TECHNOPHOBES, VIRTUAL PINBALL



BUSHNELL: Spare a quarter?

VIDEO-GAME PIONEER NOLAN Bushnell is back in front of the screen. The founder of Atari has joined a Manhattan outfit called PlayNet Technologies as its strategic planning director, with the aim of taking his beloved coin-operated games up to the next technical level, the Internet.

The company is shipping its first pay-per-play machines to restaurants, bars, and other high-traffic spots. For as

little as a quarter, people can play up to 12 card and puzzle games, downloaded from the Net, some against opponents at other locations. That's much more sophisticated than Pong, Bushnell's first game, the electronic table-tennis match that launched Atari in the 1970s. PlayNet customers also can access the Net for E-mail, news, and other services via a user-friendly touch-screen system. Bushnell believes that PlayNet can tap a vast market of technophobes.

Bushnell, 54, who joined PlayNet last April, is just a salaried employee there, at \$300,000 yearly plus stock options. He sold Atari in 1976 to Warner Communications for \$28 million, then stayed on as CEO until he began the Chuck E. Cheese pizza chain (famous for its performing robots), which Showbiz Pizza Times bought in 1984. Since then, he has run a venture capital firm, among other things. *Lisa Sanders*

PRODUCT PEEK

MAKE MINE PRICKLY PEAR

SOUTHWESTERN CUISINE HAS been trendy for some time. Now get ready for cactus. A group of Texas farmers, researchers, and business folk hope the plant can find a lucrative market nationally. It's certainly abundant. "Half the state is covered with it," says Peter Felker, a scientist at Texas A&M University, which is helping out by developing a prickly pear cactus minus the sharp spines and green slime inside.

The prickly pear, considered by some the tastiest cactus,

has been a dietary staple for centuries in Latin America. Its flat pads are cooked and eaten as vegetables, and its round fruit is candied. Aficionados say the pads taste like green beans and the fruit like melon. Chef Jay McCarthy, who heads the Professional Association for Cactus Development, as the coalition is known, uses the prickly pear in omelettes and salads at his Austin restaurant.

The Texas group has made small inroads in persuading major food companies to market cactus products. Example: Perfect Puree, a Los Angeles food processor, sells jars of cactus puree. *Scott LaFee*



VITTLES? Yessir!

DRAWN & QUARTERED



IN THE TRENCHES

A CHEAP PERK? AH, THERE'S THE RUB

WORKPLACE BACK RUBS ARE the latest employee perk, a nice way to please the troops and relieve their stress. It's not too expensive a benefit, either. The Great American BackRub charges an hourly bulk rate of \$50 to \$75 per office, usually with three massage therapists handling up to six clients each per hour.

Whose shoulders knot up the worst? Those of the big shots, says Anthony Mazlish, owner of The Healthy Back Store, which serves large companies and law firms around Washington, D.C., and Raleigh, N.C. They "tend to have superstress syndrome," says Mazlish.

Some companies are bringing back rubs—often done behind closed doors for privacy and always fully clothed—bonuses to star employees. Secretaries Week (Apr. 2) is among the roving rubs' busiest times. Ditto year-end holidays. Janet L. general manager of Books & Music Shop in Brunswick, N.J., hired



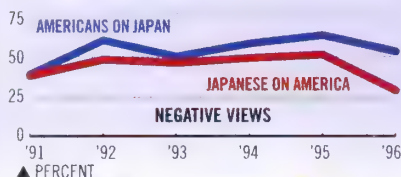
WORKPLACE MESSAGE: Stress

therapist for her overworked staff when it seemed "some days weren't going to end." *Elena Maria L.*

THE BIG PICTURE

EAST-WEST THAW

The usually downbeat American views on the Japanese have softened somewhat lately. And Japanese attitudes toward the U.S. have turned almost sunny. Why? There's no serious U.S.-Japan trade wrangle. And both countries now perceive China as a mutual threat.



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THE GRASS IS GREENER IN EASTERN EUROPE

Gail Edmondson's fantasy of Gates's heartburn over poor entrepreneurial conditions in France, alluding to the "Polish option," is dead on ("Once upon a time, Bill Gates came to France...," International Business, Feb. 10).

Readers from the Czech Republic, Poland, and Hungary should understand the potential competitive advantage their countries enjoy. This advantage might not be obvious because so much time and effort is being spent bringing these countries and economies into compliance with EU standards—perhaps creating some of the problems that Ms. Edmondson is concerned with.

Effort to renew those economies should look beyond simple imitation of Western Europe and consider leapfrogging approaches that will contribute to the competitiveness of all of Europe.

Robert D. Manz
 Helmer & Associates/
 Technos Hungary
 Milton, Mass.

THE AOL WOLF HAD BETTER WATCH OUT

AOL and Steve Case's contention that they weren't prepared for the response the company received to the \$19.95 plan is much ado about nothing ("Are flat rates good for business?" Economics, Feb. 10). They knew and felt they could play the odds.

AOL, like the wolf in *Little Red Riding Hood*, is preying on naive, first-time Net surfers. AOL better watch out for the woodsman—in the form of class actions and state attorneys general.

Isaac L. Espinoza
 Houston

HORSE SENSE ABOUT GENERICS

Let me see if I have this straight. Wyeth-Ayerst Laboratories has developed Premarin, a patented drug for human hormone replacement, which is a

cocktail of 20 horse hormones ("The 20 horses of generics," Science & Technology, Feb. 3). The drug has demonstrated some positive and some negative effects. The long-term effects of the drug's metabolites are not really known.

The side effects of Premarin—headache, bloating, irritability, breast swelling and pain, uterine cramps, vaginal bleeding, and depression—your company maintains that the public should be put at risk because a generic might not produce the same effects!

An informed public would not choose this treatment, generic or nongeneric.
 Charles Knapp
 Seattle

ARE CREDIT UNIONS CORPORATE WELFARE BUMS?

We all have our favorite candidates for the corporate-welfare hit list ("The end of corporate welfare as we know it?" News: Analysis & Comment, Feb. 10). Conspicuously absent from your article is an industry that last year took home more than \$800 million in federal tax breaks: the credit unions.

Credit unions do not pay federal income taxes. Many credit unions vie hard to serve people of small means and, for them, perhaps the federal tax break is warranted. A growing number, however, look more like banks than "nonprofit" financial institutions. Members of such unions often share no common bond, such as working in the same factory. And many of their customers are hardly folks of modest means.

For credit unions growing aggressively beyond the scope of what a credit union was meant to be, what is the purpose of their tax exemption?

Donald G. Ogilvie
 Executive Vice-President
 American Bankers Association
 Washington

A DIFFERENT TAKE ON TAMBRANDS

Jennifer Reingold's report on the misfortune of Tambrands gave interesting

Business Week

A Division of The McGraw-Hill Companies

MARCH 3, 1997 (ISSN 0007-7135)*** 3516

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If arthritis is just minor aches and pains, why is it the number one cause of disability in America?

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parties a hearing ("Time can't wait Tambrands," The Corporation, Feb. 1995). But it failed to include even one comment from those at the heart of the brands' slippage: dissatisfied customers.

After decades of selling the same product to American women—obviously without making much of an investment, if any, in research or product development—Tambrands suddenly faced competition from innovative products that met women's needs. Tambrands' response was not to improve its product, but to repackage its tampons into boxes of 32—for which they charged the same price as they had charged for a box of 40. Millions of American women decided that was an attempt to play loyal customers for suckers. They were angry enough to abandon Tambrands for its arrogance and lack of interest, let alone understanding, in meeting the personal needs of today's American women.

Janice R. Drummond
Arlington Heights

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ARE PRO SPORTS DRIPPING OUR CITIES?

Jack Kent Cooke was getting desperate. Already spurned three times by various cities and counties in Washington, D.C., Cooke was finally casting about for a site on which to build a new football stadium for the Washington Redskins. In the fall of 1995, he focused with renewed urgency upon suburban Maryland.

As part of a campaign to secure funding for new roads around one possible site, Cooke's deputies released a trove of documents claiming that the stadium would bring both fame and economic growth to Prince Georges County. If the stadium were built, they said, the county would be cited 8.9 billion dollars each year in U.S. newspapers.

U.S. citizen, on average, would pay about it 35 times a year.

It was an absurd claim—both irrelevant to economic growth and wildly exaggerated. But it was the type of hyperbole that sports-team owners have increasingly used as they have emerged on a nationwide construction boom during the 1990s, uprooting established teams and demanding sweet deals from local governments. It comes as a return salvo, in the form of Mark S. Rosentraub's manifesto, *Major League Losers*.

An urban policy professor at Indiana University, Rosentraub says pro sports teams are hoodwinking local governments into handing over tens of millions of dollars to get each new stadium. He claims that team owners inflate the economic importance of sports, overestimate the cost of their projects, play on voters' emotional ties to sports teams. The result, he says, are bad agreements that have survived only in a time of government frugality. A welfare system exists in this country that transfers hundreds of millions of dollars from taxpayers to wealthy owners and their extraordinarily well-

paid employees," Rosentraub writes.

Major League Losers could hardly arrive at a more important time. With owners seeking new revenues to offset soaring player salaries, Boston, Detroit, Pittsburgh, and San Francisco will all likely see new stadiums built over the next decade. A key rationale for the new facilities: All will have luxury suites that rent for as much as \$250,000 a year and provide profits that owners usually do not have to share with the leagues.

Rosenraub's central argument is that pro sports teams are small businesses that don't deserve the subsidies they get. The industry never accounts for more than 0.5% of jobs or salaries in any region. (By contrast, in the average metropolitan area, restaurants provide nearly 7% of jobs.) Its most successful teams, such as the New York Yankees and Dallas Cowboys, bring in only around \$100 million in annual revenue. The business does not provide local economies with any noticeable growth, Rosentraub writes. Yet Cleveland, for example, is spending about \$1 billion over a 25-year period for three pro sports franchises.

Why? Sports leagues enjoy an almost unique legal status that allows them to control the number of teams, depressing supply and inflating demand among cities. "Just as the oil-producing nations held the oil-consuming nations hostage to high prices," he says, "the sports leagues and their players are holding cities and their taxpayers hostage today." Here, the author swings wildly for the bleachers, arguing that anyone with the cash to start a team should be able to do so. The market for Major League Baseball can support 35 teams (or 7 more than currently), he estimates,

while pro football could absorb 42 (a jump of 12). Surely, though, his solution would bring scheduling nightmares and a diluted talent pool—and even more chaos than exists now.

The real answer is for cities and states to better evaluate the costs and revenues that teams bring. Here, Rosentraub shines. He notes that owners—along with the consultants they hire and the politicians they woo—overestimate teams' economic impact, sometimes by as much as tenfold. They fail to say that most of the money spent at the arena would still have been spent—say, at the movies—had the team not existed. And they don't mention that players spend about half of their salaries outside the region where they play.

Major League Losers is an important, if flawed, book. Its best chapters should be required reading for anybody who lives in a city that is negotiating to build a new arena. It's also a good reality check for sports fans

whose enthusiasm can overwhelm their good sense. Unfortunately, many readers will get bogged down in Rosentraub's turgid prose. With its many lists and rhetorical questions—and dearth of compelling anecdotes—the book often reads like an academic paper. And at more than 500 pages, *Major League Losers* would have been improved by being cut in half. Indeed,

most readers might do well to concentrate on the two sections that critique team owners' economic projections and on one of the five case studies that occupy the book's second half.

Whatever its problems, *Major League Losers*' central point is certainly valid, and Rosentraub lays it out better than anybody else to date. Politicians and voters may ultimately decide a franchise warrants the expenditure of big bucks. But they should know how many millions they'll actually need to spend—and which numbers, like Jack Kent Cooke's 8.9 billion newspaper citations, are nothing more than a figment of an owner's imagination.

BY DAVID LEONHARDT

Leonhardt is a *BUSINESS WEEK* staff editor.

MAJOR LEAGUE LOSERS

MARK S. ROSENTRAUB

THE REAL COST OF SPORTS AND WHO'S PAYING FOR IT

What Governments and Taxpayers Need to Know

SPORTS TEAMS, THE AUTHOR ARGUES, BRING FEW JOBS AND NEGLIGIBLE ECONOMIC GROWTH

BOOK BRIEFS

BACK FROM THE BRINK

The Greenspan Years

By Steven K. Beckner

Wiley • 452pp • \$29.95

FED SAGA

Despite its profound influence over the economy, the Federal Reserve has rarely been the subject of a book that provides the public with an understandable, behind-the-scenes look at how the secretive Fed really works. William Greider's 1987 tome, *Secrets of the Temple: How the Federal Reserve Runs the Country*, has long stood as the benchmark, albeit a flawed one given Greider's populist bias. While *Secrets* provided an almost novel-like read of then-Fed Chairman Paul A. Volcker's unpopular but necessary moves in the late '70s and early '80s to stave off hyperinflation by pushing the economy into a brutal recession, Greider's account was colored by his belief that the Fed often acts to protect the creditor class to the detriment of the worker.

In *Back from the Brink: The Greenspan Years*, veteran Market News Service reporter Steven K. Beckner picks up about where Greider's book left off—at the beginning of the reign of Alan Greenspan, who succeeded Volcker in 1987. But while Greider left other authors the opportunity to provide an evenhanded and accessible explanation of the Fed's activities, Beckner doesn't quite rise to the challenge.

Back from the Brink is an exhaustive—and sometimes exhausting—account of the Greenspan years. Beckner

BACK FROM THE BRINK THE GREENSPAN YEARS

Steven K. Beckner



occasionally turns a nice phrase and provides a lot of detail that in part captures Greenspan's intellect and dry wit. (When a guest at a dinner party asked, "Where are all the real people in Washington?" Greenspan replied drolly, "There aren't any.") But the book often plods along, weighed down by too much Fedpeak and Beckner's inclination to quote seemingly every source he interviewed.

What's more, Beckner comes close to deifying the Fed chief. For example, explaining the motivation behind his book, he writes that "people deserved to know just how close to the

precipice they came...and how fortunate they were to have a person of Greenspan's caliber running U.S. monetary policy."

Beckner also posits that the Greenspan years "have probably been the most difficult time to make monetary policy in the Fed's 83-year history." Really? More than during the Great Depression, World War II, or even the Volcker era? Make no mistake, Greenspan may well be the most accomplished economic forecaster of his generation. But Greenspan himself might admit that the Fed's job in recent years has been made easier by powerful disinflationary forces that have lessened the need for monetary action: In the past five years, the central bank has only altered interest rates 10 times—and all but 4 of those moves were quarter-point adjustments.

Still, for readers willing to chop through the repetition and jargon, Beckner does a yeoman's job of chronicling the Fed policy of the past decade. *Back from the Brink* shows how important the dollar has become in policymaking, the pressure recent U.S. Administrations have put on the Fed to supply easy money, and how some Fed officials have at times appeared willing to induce a recession just to wring out the last bit of inflation. If only Beckner and Greider could collaborate on a Fed book...

BY DEAN FOUST

DOING IT FOR OURSELVES

Success Stories of African-American Women in Business

By Donna Ballard

Berkley Books • 150pp • \$12

CAREER GROOVES

AS BUSINESS WEEK's Wall Street reporter for the past five years, I've interviewed thousands of bankers, traders, brokers, and analysts. But I can recall only two African-American women among them. Despite executives' stated desire to make Wall Street look more like America, it still looks a lot like Greenwich, Conn.

Donna Ballard, a former bond analyst at Merrill Lynch & Co., wrote *Doing It for Ourselves* to try to change that. As she says, Ballard believes that if young black women knew more about careers in finance, they would seek them out. She set out to introduce readers to successful black women, explain how they landed their jobs, and describe their work.

Ballard partially succeeds. She has compiled two dozen upbeat interviews with the Street's handful of black women

and others from publishing, fashion, entertainment. A few are accomplished veterans, while some are twentysomethings whose career d must be taken with a grain of salt.

Yet all provide inspiring examples of perseverance. Take Benita Pierce,

who rose from a job at a New York bank to building her own securities firm. She describes how, after an apprenticeship at the bank, she first explored and felt her way to the adrenaline rush of the trading floor. In time, Pierce talked her way out of being made a clerk and into getting a phone, a desk, and a few accounts, which launched her sales career.

Another subject is Karen Gibbs, an anchor at CNBC who covers money markets. Her childhood curiosity about how and how prices change led in time to a major in economics at Roosevelt University. "I love money—always," she says. For her first job as a time board marker at the Chicago Board of Trade in 1976, she walked a catwalk above the trading floor to chalk in price changes on a blackboard. Next came a stint at Dean Witter Reynolds Inc. as a commodities analyst.

One of the most impressive stories is that of Toni Banks, a 56-year-old grandmother who works for BUSINESS WEEK. Her mother, The McGraw-Hill Company, after dropping out of high school in the 11th grade, her love of books got her jobs in several New York bookstores. Over time, she worked her way up to a job as switchboard operator at the McGraw-Hill Bookstore to that of an account executive selling textbooks.

Ballard does a good job of showing readers a snippet of women's lives in places from J.P. Morgan & Co. to Merrill Lynch to the Teacher's Insurance Annuity Assn., a large pension fund. She provides a close-up view of the hectic pace, affluence, and sacrifice of the fast track. But Ballard misuses words and employs too much finance jargon, such as "income" and "hedge funds." A two-page double-spaced glossary provides young readers with little help. Nor does the author probe enough. Only a few women satisfactorily explain what they actually do or how they really got their jobs. At the same, the book should give young black women a few contacts and some much-needed encouragement.

BY LEAH NATHANS

Doing It for Ourselves

Success Stories of African-American Women in Business



Donna Ballard



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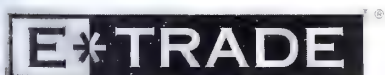
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BY STEPHEN H. WILDSTROM

A MORE ANIMATED WEB

Multimedia is getting souped up as technical wizards break data barriers

If you can't raise the bridge, the old saying goes, lower the river. The Internet is far too slow for the sort of multimedia content that World Wide Web sites want to create and that consumers seem to enjoy. And the realization has dawned on Web developers that nifty technologies, such as cable modems and high-speed digital phone lines, won't be widely available for several years.

So, to provide rich content at a reasonable speed, the Internet industry is tinkering here and there to soup up the Web, even though few consumers can connect at speeds faster than 28.8 (or soon, 56) kilobits per second. It turns out that the potential for improvement is pretty dramatic.

THE RIGHT TOOLS. One reason the Web performs so poorly is that it has grown so fast. It was only about a year ago that designers realized they could put fancy graphics, animation, and sound on their Web pages. But to do that, they turned to tools designed for other jobs, not optimized for the demands of the Web.

Consider Macromedia's Director, a high-powered package that's something of a standard for the production of CD-ROMs. Web designers wanted to use Director to

add multimedia action to their pages, and Macromedia obliged with Shockwave, a software player for browsers. Shockwave revolutionized Web content. You can see samples of Shockwave "movies" at www.macromedia.com. If you're using Microsoft Internet Explorer, Shockwave (and other players) will install automatically. Netscape Navigator users will have to download the player by fol-



of images, FutureSplash sends the instructions to recreate the images. And these graphics files are much smaller. One drawback, however, is that the quality isn't quite as good as the best that Director can do. And at least for now, FutureSplash, which has been acquired by Macromedia and renamed Flash, can't add a soundtrack to the images. But the increase in speed is impressive. You can try out Flash at www.futurewave.com.

CHILDREN'S BOOKS. Narrative Communications has a different idea. Its system, called Enliven, takes a Director movie and breaks it into components that can be downloaded as needed by a Windows 95 machine. Instead of waiting for an entire movie to download, at the pace of about 10 minutes per Mb on a 28.8

kbps modem, the action starts in about a minute.

In theory, it's possible to send an entire multimedia CD-ROM over the Web this way, perhaps on a pay-per-view basis. Already, Living Books (www.livingbooks.com) is using Enliven to provide demos of some of its popular children's CD titles,

ing quality video over Net is a daunting task. screen, broadcast-grade video needs between 2 Mb and 10 Mb per second of data. Loading any sort of video requires compromises in the size of the image and number of frames per second, which determines the smoothness of motion. The broadcast standard is 30 frames per second. In North America, 25 in most of the rest of the world.

Live video won't take that standard soon, but at least you can now see it on the Internet. The trick is to cram more data through the wires. For example, Progressive Networks' new RealVideo service can move 160-pixel-by-120-pixel images about 2 1/4 inches by 1 1/4 inches on a typical monitor, at 10 frames per second at 28.8. You can download a test version of RealVideo player for Windows 95 or the Macintosh from www.realaudio.com. Even with a 56 kbps modem, a basketball game would be hopelessly blurry, though movies—or a business video conference—look pretty good. Meanwhile, WebTV Network has developed a technology called VideoFlash that it expects will, when released later this year, allow Sony and Matsushita WebTV browsers to

The Enliven system takes video and breaks it into small components, so a Windows 95 machine can deliver it to you in about one minute

lowing the on-screen instructions. In either case, these Director movies, as the animations are called, can quickly run to a megabyte or more and can take forever to download.

Programmers at a company called FutureWave Software figured out a way to do many of Director's tricks in much shorter transmission time. The secret is that instead of sending bulky copies

including *Arthur's Birthday* and *Green Eggs and Ham*. Another possibility, for better or worse, is much more compelling Web advertising that includes sound and animation. Check out the demonstration Netscape ad at www.narrative.com.

Sound is nice, and animations are cool, but the ultimate goal of the folks creating Web content is to be able to include live video. Send-

ceive live quarter-screen video over 28.8 kbps modem. VideoFlash apparently relies on a proprietary scheme to compress data.

The full potential of the Web, especially for entertainment, won't be realized until networks get dramatically faster. But the multimedia experience is getting a lot better as the technical wizards learn to find a little more room under that low bridge.

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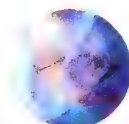
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BY ROBERT KUTTNER

A TINY TAX MIGHT CURB WALL STREET'S HIGH VOLATILITY



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Several weeks ago, Federal Reserve Chairman Alan Greenspan, choosing his words very carefully, warned that the stock market was becoming a bubble. The market lurched, recovered, and kept climbing. Wall Street decided—correctly, it seems—that Greenspan was not so worried that he might raise interest rates merely to spite the stock runup. But Greenspan had a point. Stock prices are now higher, relative to actual and anticipated earnings, than at any time since the 1920s.

Chairman Greenspan speaks out on policy issues more than most of his predecessors did. He has, for example, urged Congress to deflate the consumer price index, and he strongly supports fiscal discipline. If Greenspan truly wishes to temper the "irrational exuberance" of financial markets, however, he would do well to express himself on two other policy ideas—one of which is now on the fast track to bipartisan approval, the other of which is anathema to Wall Street and most legislators but dear to many economists. I refer to a capital-gains tax cut and also to the idea of a small tax on financial transactions.

Cutting the capital-gains tax is suddenly back in fashion. During the 1996 campaign, President Clinton tried to head off a general capital-gains tax cut by supporting capital-gains relief for homeowners and tax credits for families with children instead. But because of Republican prodding, Congress may well enact a general capital-gains cut, with Democrats clambering on board to share the credit.

NARROW SLICE. This is a bad idea on three grounds. First, any stock market that has doubled in four years and quadrupled in a decade does not need additional stimulus. The danger facing Wall Street today is further euphoria, not insufficient reward for investors. Second, since wealth is far more highly concentrated than income, a capital-gains cut would bestow tax relief on a narrow slice of Americans: the very rich. More than 40% of stocks are held by the richest 1% of people. Capital gains in the more broadly distributed forms of shareholding, such as pension plans and life insurance policies, are already tax-exempt.

What's more, general capital-gains relief would widen the budget deficit. This, in turn, would increase pressure to cut government

outlays that benefit lower-income people. Wider deficits would raise the risk of higher interest rates. In an era of low inflation and booming stock prices, general capital-gains relief is simply gratuitous. If we cut capital-gains taxes at all, relief should be limited to investments held for very long periods.

If anything, we need to use tax policy to damp down the volatility and euphoria in financial markets. One sensible remedy, proposed more than two decades ago by Nobel laureate James Tobin, is to levy a tax on foreign exchange transactions. The idea, recently resurrected in a collection of papers (*The Tobin Tax: Coping with Financial Volatility*, edited by Mahbub ul Haq, Paul Kaul, and Isabelle Grunberg, Oxford University Press), is that a tiny tax, say 0.2%, would be a trivial burden on genuine investors but a useful deterrent to transactions that were mainly speculative.

TEMPER THE SWINGS. A Tobin tax might be levied on all financial transactions, but logic applies with special force to the global foreign exchange market, which now totals \$1.3 trillion a day—but which is a zero-sum game. (That is, one trader's gain is also matched by another's loss.) As Professor Tobin observes: "A 0.2% tax on a round-trip to another currency costs 48% a year if it is acted every business day."

Applied to international currency transactions, a Tobin tax would temper the swings in foreign exchange markets and lead to more stable exchange rates. Levied on international portfolio investment, it would cool the boom of hot money and reward investment for the long haul, which is surely what emerging economies need from global capital markets. To work, a Tobin tax would require increased convergence and coordination in the tax and regulatory policies of the major nations—a worthwhile objective in itself.

Besides punishing pure speculation, a Tobin tax would also raise a lot of money at a time when legislators want to reduce deficits but are tempted to open up new loopholes. Even a tax of 0.2% would generate several tens of billions of dollars a year—more than enough to finance a cut in capital-gains rates on very long-term investments. It's a perfect trade: Limit capital-gains rates on long-lived investments, and raise taxes on pure financial speculation. Over to you, Chairman Greenspan.

Robert Kuttner is co-editor of *The American Prospect* and author of *The End of Laissez-Faire*.

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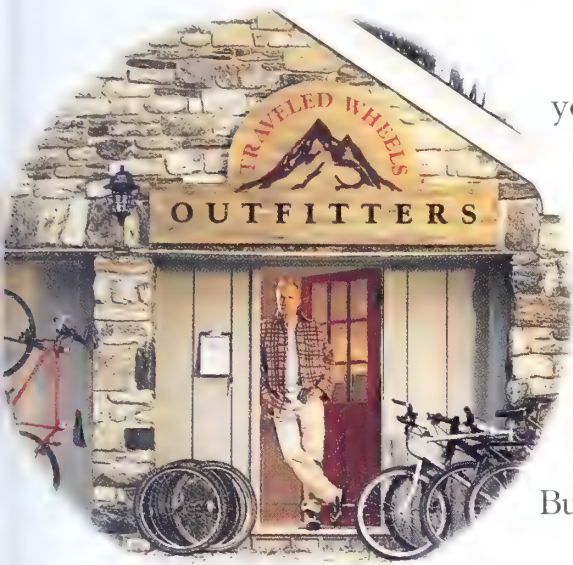
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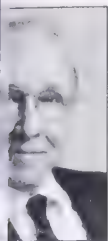
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BY GENE KORETZ

WHO'S AFRAID OF CREDIT CARDS?

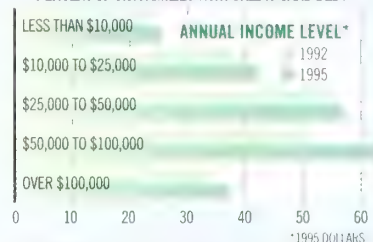
Debunking the dangers of plastic

Is there a growing risk that the double-digit surge in credit-card debt since mid-1994 will trigger a consumer-debt crisis that will end the current cyclical expansion? Some experts, pointing to the aggressive marketing of credit cards in recent years, the relatively high delinquency rates on credit cards, and the surge in personal bankruptcies, are convinced there is.

Economist Robert E. Mellman of Morgan Guaranty Trust Co., however, is

TRACKING THE GROWTH IN CREDIT-CARD DEBT

PERCENT OF U.S. FAMILIES WITH CREDIT-CARD DEBT



skeptical. For one thing, he notes that credit-card debt is less than 4% of household liabilities. Even factoring in home mortgages and other forms of borrowing, total consumer debt has actually been rising lately at 7% a year, compared with 11% in the upturn of the 1980s. And that has happened while the buoyant stock market has bolstered the asset side of consumer balance sheets.

Corroborating evidence comes from the newly released results of the Federal Reserve's latest (1995) survey of consumer finances. It indicates that the ratio of total household debt to household financial assets has declined—from 53.4% in 1992, the year of the previous survey, to 46.9% in 1995.

Furthermore, the survey shows that the median unpaid credit-card debt of all families with such debt rose by only \$400 (in 1995 dollars) from 1992 to 1995. Assuming an average 15% interest rate on these balances, Mellman calculates that the rise in the average monthly interest payment over those three years comes to just \$5 a month—"hardly the making of a financial crisis."

More important, the biggest increase

in credit-card borrowing was posted among families in the \$50,000 to \$100,000 income class, where the portion of those with such debt rose by 11.5 percentage points—from 51.3% in 1992 to 62.8% in 1995. That compares with increases of only a percentage point or two among families with incomes below \$50,000 (chart). In other words, card issuers seem to have mainly courted those families with the wherewithal to repay their balances. "Issuance of greatly increased credit to high-risk cardholders appears to have been the exception and not the rule," Mellman says.

To be sure, the Fed survey was conducted in 1995 and there has been a further rise in household debt levels and credit problems since then. But Mellman notes that credit-card companies have also become a lot less aggressive in recent months and that credit-card debt growth has slowed. "That points to an easing of debt problems before too long," he says.

DOING A SNOW JOB ON THE DATA

The '96 blizzard skews readings

Is the economy picking up speed? Judging from January's reported surges in employment and auto sales, the answer appears to be yes. Trouble is, seasonal adjustments during the winter months can have an exaggerated effect on the raw data—particularly when the adjustments reflect highly abnormal weather in the previous year.

Thus, it could well be that the blizzard of January, 1996, is causing this year's seasonal adjustments to inflate some recent statistics. For example, economist David H. Resler of Nomura Securities International Inc. calculates that if this January's raw payroll data were adjusted by last year's seasonals, job gains would have been only 169,000 instead of 271,000.

Similarly, economist Peter D'Antonio of Citibank notes that last year's seasonals give an entirely different picture of the recent trend in auto sales than the new seasonals

(chart). To him, this suggests January's reported sales rebound "may be smoke and mirrors than an accurate reading of the motor-vehicle market."

UPPING THE ANTI-TENDER OFFER

Outsider boards win bigger bids

Students of corporate governance have long argued that independent directors are more likely to keep a company up to snuff than board members who are insiders. In a forthcoming study in the *Journal of Financial Economics*, James F. Cotter of the University of Iowa, Anil Shivdasani of Michigan University, and Marc Zenner of the University of North Carolina find that outside directors often enhance shareholder wealth in another way: by extracting higher bids from potential purchasers during takeover attempts.

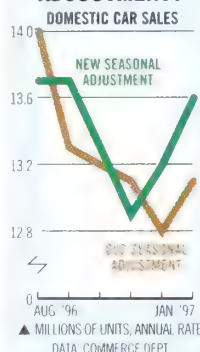
The three researchers analyzed takeover attempts in the U.S. from 1989 to 1992, comparing the results for companies where independent outside directors were in a majority with those whose boards had a preponderance of insiders. They found that independent boards were more likely to resist an initial tender offer than were independent boards. And offers resisted by independent boards were slightly more likely to succeed in the end than were offers resisted by insider boards.

But these differences were relatively small, and they paled beside the contrast in the gains reaped by shareholders of target companies. From inception of an offer to its resolution, the returns to such shareholders—measured as the appreciation in the value of the stock holdings—averaged 62.3% for the target companies had independent boards, compared with 40.9% when the boards had insider boards.

Why the disparity? Independent boards were far tougher negotiators than insider boards and made good use of poison pills as bargaining tools. In revisions in initial bids they secured from suitors were twice as large as those won by nonindependent boards.

As for the big losers, not surprisingly they turned out to be the shareholders of acquiring companies. Over the duration of the takeover contests studied, their shares plunged by an average 18.7% when the company being wooed had an independent board, compared with a dip of just 1.2% when the board was dominated by insiders.

A DUBIOUS ADJUSTMENT?



AMES C. COOPER & KATHLEEN MADIGAN

TILL NO SNAKE IN THE ECONOMY'S EDEN

How long can strong growth with low inflation last?

U.S. ECONOMY

Nirvana continues, and Wall Street loves it. From all outward signs, the economy is beginning 1997 right where it left off: an investor's paradise of healthy growth, rising profits, low inflation, and an idle Federal Reserve. That's why the Dow Jones industrial average edged its way past the 7,000 mark on Feb. 13. And if you expect this blissful combination to last, then you're probably part of the group chanting, "10,000 by 2000."

The January data certainly fit the scenario. A slowdown in industrial production and rising retail sales suggest continued—but cooler—economic growth compared with the scorching 4.7% pace in the fourth quarter. Corporate earnings last quarter were surprisingly strong (page 92), and analysts are upping their 1997 projections. Meanwhile,

wholesale and retail inflation remain notably below target (chart).

Given this kind of performance, the Fed has no reason to hike interest rates and every reason to hold them steady. That's why Wall Street keeps charging ahead. Low interest rates and healthy profits are the main justifications for stock prices at these levels, at least based on traditional methods of market valuation. Higher interest rates would undercut stock values and make fixed-income securities more attractive and threatening future profits.

IT'S WHY THE DATA in coming months will be especially important for the Fed—and investors. Despite the latest numbers, there is still no clear sign that the economy has cooled down enough to eliminate the concerns about future inflation and a possible preemptive strike against it by the Fed. Those fears about the outlook are especially valid amid today's tight labor markets and accelerating wage growth. First-quarter growth is set to slow, mostly because of the expected widening in the trade deficit, a reversal of last quarter's sharp narrowing that was due mainly to seasonal quirks. The December trade deficit jumped to \$10.2 billion, after shrinking to about \$8 billion in both October and November. But consumers will be the key sector to watch. Fore-

casts of a cooler economy this year are predicated on slower consumer spending. However, the current combination of strong labor markets, faster wage growth, high consumer optimism, and rising household wealth means that consumer fundamentals support spending more than at any time in this six-year expansion.

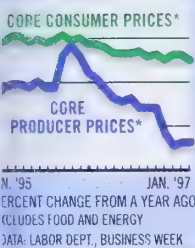
The surge in stock values itself is fueling consumer spending. Although economists believe that the wealth effect on spending from rising asset values is small, equity values have risen by so much that the total impact undoubtedly has been significant. The proportion of households owning stock through any means rose from 32% in 1989 to 37% in 1992 to 41% in 1995, according to the Fed's latest Survey of Consumer Finances. That percentage has obviously risen further in 1997. Moreover, says the Fed, all income and age groups saw a "substantial" rise in stocks as a share of financial assets, with share ownership doubling, from 10% to 21%, for families of incomes less than \$25,000.

The latest numbers show that January retail sales rose a healthy 0.6% from December, and they have already grown at an annual rate of 2.9% from the fourth quarter (chart). January unit sales of cars and light trucks were surprisingly strong, putting them well above the fourth-quarter level. Department stores also did extremely well, with sales rising a strong 1.3% in January on top of December's 0.8% advance. And weekly surveys suggest strong February buying.

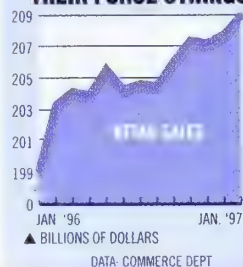
UNLESS CONSUMERS LET UP—and that looks unlikely—the factory sector's momentum will continue to build. It didn't look that way in January, as industrial production failed to grow from December, and as capacity use edged lower, to 83.3% from 83.5% in December. But the January output numbers were skewed by the same bad weather that depressed the hours-worked data in the month's labor-market report. The Fed uses the Labor Dept.'s data on hours worked for many of its production estimates.

The production data most likely rebounded in February. Even though January output was flat, production started the first quarter at an annual rate of 2.4%

INFLATION REMAINS REMARKABLY TAME



SHOPPERS LOOSEN THEIR PURSE STRINGS



above the fourth quarter. Autos are supplying an important boost: Output rose sharply in January and is scheduled to stay strong for the rest of the quarter.

A key support for production this quarter is lean inventories (chart). Stock levels at factories, wholesalers, and retailers fell 0.1% in December. Sales slipped by the same amount, but during the second half of last year, sales grew twice as fast as inventories, cutting the ratio of stock levels to sales to a record-low 1.39. The Commerce Dept. will likely revise fourth-quarter inventory growth downward, better enabling first-quarter output to grow in line with demand.

AS THE FOURTH QUARTER SHOWS, a strong economy means buoyant profits. According to BUSINESS WEEK's tally, aftertax earnings, excluding extraordinary items, rose 33% last quarter from a year ago, with a sales increase of 11%. In fact, profits were so surprisingly strong that several large securities firms, including Merrill Lynch & Co. and Salomon Brothers Inc., are raising their 1997 earnings projections.

Still, forecasts for growth in earnings of the companies in the Standard & Poor's 500-stock index cluster around 6%, according to Zack's Investment Research. That's down from the double-digit pace of the past five years. Will such a slowdown, if it occurs, justify today's soaring equity prices?

That question becomes even more important if the

Fed feels compelled to lift interest rates. Of course, even inflation's conduct of late, a rate hike is hard to justify. The producer price index for finished goods fell 0.3% in January, and excluding energy and food, the core index was unchanged. Annual core wholesale inflation has slowed to 0.6%, from 2.2% a year ago. The consumer price index increased by a modest 0.1% in January, with the core index also up only 0.1%. Consumer inflation slipped to 2.5%, a 23-year low.

Moderation in both food and energy prices was the key feature of the January price performances, as the 1996 runup in both sectors appears to have run its course. Wholesale food prices dropped 1% in January from December, and crude oil prices have declined by about \$4 per barrel since the beginning of the year. While that's good news for inflation, it will also free up additional buying power for consumers.

Nirvana will continue only as long as the economy shows it can grow strongly without generating high inflation, because that's the recipe for good profits and low interest rates. But if business-cycle history is a guide, that delicate balance will be difficult to maintain as this mature expansion heads into its seventh year.

SALES ARE OUTPACING INVENTORY GROWTH



FRANCE

A BACKDOOR BOOST TO THE ECONOMY

After last year's economic sluggishness, French executives and consumers began 1997 on a cautious note. But an indirect easing of monetary policy may push spirits higher later on.

In the latest survey by the National Institute of Statistics & Economic Research (INSEE), business executives say that production slipped in January, and total demand remained weak. The most improvement came in overseas demand, which has helped to pull up the index for overall industry prospects (chart). The index rose to 1%, the first positive reading in 1½ years. However, another INSEE survey shows that businesses have cut back on

their 1997 capital-spending plans. French companies expect to increase their outlays by only 4%, down from the 7% rise reported in the October survey. That works out to a 2% gain after adjusting for prices.

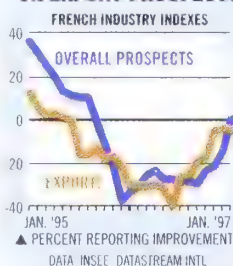
Consumers are also wary about the economy's outlook, and that may hold back spending. The household sentiment index stood at -34% in December. Unemployment and social program reforms are the big worries. December's jobless rate remained at a high 12.7%. And civil service workers plan a Mar. 6 strike to protest unacceptably low pay raises.

Prime Minister Alain Juppé's government has little room to

deal with the unions. The 1996 deficit exceeded its target by 7 billion francs (\$1.23 billion), bringing the gap to 4.1% of gross domestic product. The government has pledged to freeze 1997 spending in order to hit the Maastricht Treaty deficit-to-GDP goal of 3%.

To meet that target, the government expects real GDP to grow 2.3% in 1997, up from 1.3% in 1996. That's in line with private forecasts, but both projections depend on further interest-rate cuts by the Bank of France. Right now, BOF officials are talking down chances of a rate cut. But on Feb. 13, the French central bank cut bank reserve requirements by 13%. That's a backdoor way of easing policy and lifting growth, since the cut adds money to the economy and reduces borrowing costs.

INDUSTRY HOPES RISE ON EXPORT PROSPECTS



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CHINA AFTER DENG

The last "paramount leader" is gone. Will stability reign?

He was the bland one, the quiet *apparatchik*, the one who was never supposed to last at the top. But for eight momentous years, Jiang Zemin has survived as China's President, patiently preparing for the moment when his patron passed on.



Now, Deng Xiaoping is dead, and the world is wondering: Can the disciple assume the master's mantle?

It will be difficult for Jiang to match all of Deng's accomplishments. The aged revolutionary, after all, deftly steered China from a period of stagnation and rigid communist ideology into its current era of vibrant growth and tremendous change.

Up to now, Jiang, at 70 still young by the standards of Chinese leadership, has done a remarkable job of hanging on to power. The coming months will be crucial to the consolidation of his power. And the uncertainty that follows any Chinese leader's death will put strains on everything from economic planning to U.S. relations (page 32). But the betting is that Jiang will remain China's leader at least over the short term.

The world will be especially sensitive to developments in China over the next 12 months. China watchers in the U.S. will be on the lookout for human-rights violations as the Bei-

**VISION: DENG
LED CHINA
INTO AN ERA
OF VIBRANT
GROWTH**



jing government claims Hong Kong. China's economic policies are an issue on both sides of the Atlantic. In Europe, nationalists are citing the flood of inexpensive Chinese goods as a prime example of what's wrong with globalization. American business' love affair with China is also eroding as profitless investments there become more difficult to justify. And Chinese imports to the U.S. are hitting record highs.

CRITICAL TIME. The last thing China needs now as it aspires to a bigger role on the world stage is a succession struggle. The Feb. 19 passing of Deng Xiaoping, who succumbed at 92 to Parkinson's Disease and other ailments, was long expected and doesn't immediately alter the political structure in Beijing. China watchers expect Jiang heading a collective leadership team headed by a handful of other politicians from their 60s and 70s, including Premier Qian Qunli and economic czar Zhu Rongji. "The major leadership changes have already been made," says American International Group Inc. Chairman Maurice R. Greenberg, a longtime China investor.

Yet though Deng's increasing infirmity left Jiang and his collective leadership in charge for at least two years, his death still creates uncertainties. I



Even though Deng's death was long anticipated, it creates uncertainties. Jiang could have used another year to ensure his position as head of the country

JIANG (LEFT) WITH PREMIER LI PENG AND ECONOMIC CZAR ZHU RONGJI

died a year from now, Jiang would have had more time to put loyalists in key posts. Already, the jockeying has begun for the 15th Party Congress, scheduled for the fall of 1997. These congresses, held every five years, are used to announce key personnel shifts. Now, Jiang's detractors may feel more emboldened to challenge him—and move to block some of his initiatives and appointments. "The time between now and the next Party Congress is critical for Jiang," says Kenneth G. Lieberthal, a professor at the University of Michigan China Center.

Forced to keep one eye on his opponents, Jiang is likely to exercise caution on a range of policies from economic reform to relations with Washington. Although Jiang clearly craves

the prestige of world statesman he would earn by normalizing relations with the U.S., he won't want to be seen as too conciliatory at a time when strident nationalism is replacing Maoist ideology. "Don't look for any bold departures soon," says H. Lyman Miller, director of China studies at Johns Hopkins University's School of Advanced International Studies.

Jiang won't be a sitting duck. Back in 1989, Deng elevated him from Shanghai mayor to become head of the Communist Party. He then became the makeshift replacement as heir apparent for the disgraced Zhao Ziyang, who was blamed for abetting the Tiananmen Square uprising. Since then, Jiang has strengthened his hold by promoting al-

lies, many from Shanghai, to top positions. He worked tirelessly to shore up relations with the military. And he accrued more titles than any other official. Besides being Chinese President and party leader, he heads the powerful Central Military Commission. Now, he is angling to revive the position of Chairman of the Communist Party, a job that went out with Mao Zedong.

Despite his résumé, Jiang, like his rivals, lacks a critical credential. Unlike Deng and Mao, Jiang and his contemporaries were not present at the creation of the Chinese Communist Party and did not endure the rigors of the Long March of 1934-36. Deng was last in a line of "paramount leaders" who could force consensus through the pow-

The Challenges Facing Jiang

MANEUVERING FOR POWER

Must tighten his hold on the party leadership and consolidate power to squelch potential opponents

MANAGING THE ECONOMY

Has to hold inflation in check, restructure money-losing state-owned enterprises, and still keep employment high

AVOIDING SOCIAL UNREST

Needs to narrow the gap between the booming urban coast and the poor rural interior—and keep a lid on ethnic insurgencies

TAKING OVER HONG KONG

Must prove Chinese rule will not spoil political and economic freedom in Hong Kong

DATE: MARCH 3, 1997 WEEK

Although the need for leadership on the economy is critical, Jiang may not be able to act as boldly as Deng

er they wielded in the party, the military, and the economy.

Because Jiang lacks Deng's status and power, he will not be able to act as forcefully in tackling China's myriad problems. That could be troublesome, given the need for strong leadership on the economic front. The challenge is to keep China's economic success moving forward in the face of challenges to further reforms. The good news is that China's economic growth is still in the range of 10%, while inflation has been tamed from a sizzling 21% in 1994 to single digits today. What's more, China's foreign reserves have swelled to a

healthy \$100 billion, allowing monetary authorities to start to live up to long-promised commitments to the International Monetary Fund to make the renminbi convertible.

But structural weaknesses are growing more glaring and must be dealt with if China's growth is to be sustained. The worst problem is the woeful financial shape of state enterprises, 50% of which continue to lose money, despite years of reforms. The financial system is struggling with a huge portfolio of bad debts. Even more worrisome, the gap between China's rich coastal provinces and its impoverished interior is widening. That's

a major reason why agricultural workers continue to flock to big cities. "floating population" is estimated to 100 million. While most have found work, others have resorted to crime. These problems need to be tackled. For the past two years, Jiang has backed off from dealing with tough reforms for fear they may stir up unrest.

Further delay on economic reforms is likely, as Jiang's team seems to be preparing for this year's two big events smoothly. Once the handover of Hong Kong is completed, he needs to ensure that the territory will not be a source of political instability in the mainland.

STRAINS IN U.S.-SINO RELATIONS ARE SHOWING—AGAIN

Last fall, it looked as if U.S.-China relations were finally on track. Tensions over Taiwan were receding, Washington and Beijing started emphasizing shared economic and security interests, and a planned summit between President Clinton and President Jiang Zemin seemed sure to give the Chinese the stature they've long sought. Relations were so cordial that Beijing indicated it preferred Bill Clinton to Bob Dole in the 1996 Presidential election.

But suddenly, the hopes for a breakthrough year in China-U.S. relations are looking fragile. With Deng Xiaoping's death, China's top leadership will be jockeying for position: In this delicate moment, Jiang cannot be too accommodating to Washington lest he antagonize Beijing's hard-liners. Just as bad, Deng's death comes as signs of discord were already emerging. Beijing's clumsy moves toward restricting civil rights in Hong Kong and a crackdown

on dissent at home have been raising hackles on Capitol Hill. So, too, has news that China's politically touchy trade surplus with America swelled by 17% in 1996, to nearly \$40 billion. Meanwhile, bombshell reports suggest the Chinese Embassy may have funneled contributions to the Democratic National Committee and that fundraiser John Huang had leaked top-secret information to the Chinese.

HARD TO INFLUENCE. Taken together, these points of friction provide the stiffest test yet to the Administration's proposition that friendly engagement with China is the best way to promote democracy and free markets. That argument will sound hollow now if China rolls back freedoms in Hong Kong or hangs tough with the U.S. on trade. The problem is that Chi-

na "thinks of itself as the world's oldest civilization," notes Hudson researcher Robert Dujarric. "It has little choice but to try."

The stakes are equally high for Deng's handpicked successor. D

There Are Signs of Progress...

MILITARY Beijing says it will sign the nuclear test-ban treaty and has resumed high-level military dialogue with the U.S.

TRADE China is making its currency easier to convert and indicates it will give foreign producers wider market access if it can enter the World Trade Organization

POLITICS Diplomatic activity is in full swing, with Clinton, Al Gore, and Madeleine Albright scheduling trips to Beijing



also will want to be that the Party proceeds as expected ratifies his leadership. He passes both of the tests, some experts think, and he won't wait too long to get back to work on the economy. "After the handover, we'll see more momentum in economic reform, especially of the state-owned sector," predicts Johns Hop-

Miller. On foreign policy, Jiang is likely to avoid big moves. For outsiders who have become alarmed at China's growing military power and assertiveness over territorial claims in Asia, the big question is whether Jiang will be able to keep hard-liners at bay. While he was in power, Deng was a critical check on the most militarists and ideologues who wanted to take a combative line against



the U.S., China's main political rival. Even with Deng's support last year, Jiang was unable to prevent the hard-liners from pushing China into a potentially dangerous military confrontation with Taiwan and the U.S. That's when Beijing used missile tests in a vain attempt to

MILITARY MIGHT: CONFRONTATIONS AHEAD?

influence the island's elections. Jiang, who had crafted a policy of quiet diplomacy toward Taiwan, was criticized for being soft on Taiwan's push for greater recognition.

Jiang clearly still has to strengthen his hand against the hard-liners and others. How he handles this challenge will test Beijing's ability to manage a lasting and peaceful transfer of power to leaders who lack the legitimacy of the original revolutionaries. It's up to the quiet party man to steer China safely into an uncertain future.

By Joyce Barnathan in Hong Kong and Pete Engardio in New York, with Sheri Prasso and William Glasgall in New York, Stan Crock in Washington, and bureau reports

personality and personal relations. U.S. leaders helped keep Beijing's American hawks in line, and will make it even more imperative for Washington to establish strong ties with top Chinese leaders. Jiang's relationship with Clinton as well, because it will furnish his image as a statesman. If Sino-U.S. relations sour, they will have ammunition to use at the next Party Congress this fall. The transfer of Hong Kong to China

on July 1 looms as a critical litmus test for U.S.-China relations. Beijing has promised a "high degree of autonomy" for the territory. But officials backed by Beijing seem poised to replace some civil liberties with laws that many fear won't be as expansive. Attention will be riveted on whether Hong Kong's freedoms are preserved. "China's on the line not just with us but with the whole rest of the world," says Ronald N. Montaperto, a National Defense University China analyst.

SOFT DEAL. China's application to the World Trade Organization is another touchy issue. China wants admission under soft terms reserved for developing countries. But the U.S. and Europeans want it to comply with the same rules as the industrialized world. One possibility for compromise is for China to agree to open its markets in stages. But it's far from clear that the two sides will reach an accord. "The Chinese are hanging tough. We are,

too," says former U.S. ambassador to China James R. Lilley.

Even so, senior U.S. officials are preparing for an unprecedented flock of meetings with the Chinese. Secretary of State Madeleine K. Albright will stop in Beijing in late February. Vice-President Al Gore is due in March. And the Presidential get-together will take place later this year in Washington. The Administration hopes the summits will keep relations on an even keel. "The Administration has managed to develop a coherent China policy and has gained credibility," concedes Stanford University China expert Michael Oksenberg, once a critic of Clinton's China policy.

Summitry will help, but relations could be strained by everything from the controversy over the role of Asians in financing Clinton's campaign to uncertainties over Jiang's grip on power. That would make it even more difficult for Beijing and Washington to find a middle ground on such issues as the WTO, human rights, and Hong Kong.

By Stan Crock in Washington and Joyce Barnathan in Hong Kong

...But Flashpoints Remain

HONG KONG The July 1 handover could spark tension if Beijing cracks down on political and economic freedoms

DONOR GATE The ongoing probe raises fear of Chinese espionage in the U.S. and undermines Clinton's credibility on Asia policy

WEAPONS Riots in China's Muslim regions and need for Middle East oil could tempt Beijing to continue supplying sophisticated military aid to Pakistan and Iran



CORPORATE GOVERNANCE

THE RUSH TO QUALITY ON CORPORATE BOARDS

Why more U.S. companies are scrambling for top-notch outside directors

Is good corporate governance contagious? Last fall, Harvey Golub accepted an outside directorship for the first time since he became chief executive officer of American Express Co. in 1993. Golub joined the respected board of Campbell Soup Co. Now, Golub is searching for two high-powered outsiders to bolster his own company's comparatively lackluster board. AmEx is looking for "CEOs who come from stellar shareholder-value companies," according to Dennis C. Carey, vice-chairman of SpencerStuart, which is conducting the search.

Golub has plenty of company. All sorts of big, name-brand U.S. companies

are suddenly scrambling to add marquee directors to their boards. SpencerStuart and other recruiters are awash in assignments from outfits looking for outside directors: SpencerStuart is conducting 150 director searches, up from 60 two years ago. And companies are not only adding more outsiders but also vastly upgrading their requirements. Figureheads, celebrities, and yes-men are out: The new prototype is a forceful, knowledgeable executive—preferably a CEO. "Boards are trying to find directors that better reflect the dynamics of the business," says Gregory E. Lau, executive director of corporate governance at General Motors Corp., which last year added the CEOs of Eastman Kodak, Compaq Computer, and ABB Asea Brown Boveri to its board.

Companies want outside directors who can take an active role in helping guide the business and who will reassure—or at least placate—restive investors. In a recent survey of 50 large institutional investors, McKinsey & Co. found that stockholders were willing to

pay 11% more on average for the stock of companies considered well earned—that is, companies in which outsiders constitute a majority of the board, own significant amounts of stock, are subject to formal evaluation, and are not personally tied to management. **NETTLESOME.** There can be an immediate payoff from announcing the intent to beef up a company's board. Just last week, Time Warner Inc. The media conglomerate, which recently ranked 22nd from the bottom on BUSINESS WEEK's list of America's 25 worst boards, announced on Feb. 11 that nominees for its board elections in May would include two prominent CEOs: Stephen F. Bollenbach of Hilton Hotels Corp. and Gerald Greenwald of UAL Corp. Bollenbach is a well-practiced dealmaker who knows a thing or two about entertainment from his stint as chief financial officer of Walt Disney Co. Greenwald took part in the restructuring that saved Chrysler Corp.

Time Warner Chairman Gerald L. Greenwald was his idea. "[I wanted]



Dialing For Directors

A sampling of companies that are actively seeking a stronger slate of outside directors for their boards



GOLUB

AMERICAN EXPRESS Chairman Golub has installed two outside directors since taking over as CEO in 1993. Now, he's looking for two more—specifically CEOs from "strong shareholder-value companies" to replace Henry Kissinger and David M. Culver.



KANN

DOW JONES Under pressure from disaffected family stockholders, CEO Peter Kann nominated three CEOs as outside directors: Harvey Golub of American Express, Frank Newman of Bankers Trust, and William Steere Jr. of Pfizer.

CEOs with a real financial orientation," Levin says. Investors applauded: Warner's shares jumped nearly 2 points, to 41½, on Feb. 11. "If [Time Warner Director] Beverly Sills spoke who would listen? Who cares?" says Teslik, executive director of the Council of Institutional Investors. "But if you put a Bollenbach on the board, you better believe they'll listen." On the same day, Dow Jones & Co., the beleaguered giant, unveiled a plan to add three outside directors, a move that suddenly

presented Golub of Xerox, Frank N. Taylor, former man of Bankers Trust, and William C. Sullivan Jr. of Pfizer. Jones's move isn't wholly voluntary. CEO Peter Kann was under pressure from his most nettlesome critics—Robert Goth and William Cox III, members of the family that controls Dow Jones. Unhappy with the decision to invest an additional \$650 million in Telerate, they each submitted a list of proposed directors. Cox's list included Nathan P. Myhrvold of Microsoft, and Jim P. Manzi, former CEO of its Development Corp. None of their names was accepted, but the changes apparently placated the two family members, at least for now.

SHER. At WMX Technologies Inc., Phillip B. Rooney learned the hard way how much investors want stronger boards—and management. As part of a restructuring plan announced on Feb. 11, WMX installed a new outside director—Paul M. Montrone, CEO of Fisher Scientific International Inc.—and hired Erick & Struggles Inc. to recruit

two more outside directors by its annual meeting in May. The makeover plan disappointed Wall Street, however, knocking already depressed WMX stock down 10%. George Soros, whose fund-management firm controls 5.2% of WMX's shares, demanded four seats on the board and urged Rooney to step down as president and CEO.

On Feb. 18, Rooney complied. He stepped down and is being replaced temporarily by Chairman and former CEO Dean Buntrock. Meanwhile the WMX

smaller, more profitable, and better focused operation. He and an ally gradually replaced seven of the nine old directors: The new board consists almost exclusively of CEOs or ex-CEOs in high tech. Peter van Cuylenburg, who joined last year, was once chief operating officer of Next Computer Inc. and is a former CEO of Mercury Communications. L. Dennis Kozlowski, CEO of Tyco International Ltd., is a mergers-and-acquisitions ace. Since 1993, Dynatech has seen its share price quadruple.

With success stories such as Dynatech, it's no wonder good outside directors are hard to find. After all, the best CEOs have their own companies to run. And the new rule of

thumb among management experts is that an active executive should sit on no more than three outside boards. "We are suffering a lot of rejection," says Roger M. Kenny of headhunters Kenny, Kindler, Hunt & Howe. In the end, CEOs who ignore the growing emphasis on tough outside directors are likely to end up feeling the same way.

By Anthony Bianco and John A. Byrne in New York, Richard A. Melcher in Chicago, and Mark Maremont in Boston

STOCK JUMP After Time Warner brought in Steve Bollenbach and Gerry Greenwald as directors, its shares rose nearly two points

board is searching for a new, outside CEO. "The ultimate test of whether WMX has gotten the message," says Nell Minnow, a principal of Lens Inc., another dissident WMX shareholder, will not be who it chooses as CEO but whether it fills the two outside directorships with top-notch names.

Few companies have overhauled their boards to better effect than Dynatech Corp. This maker of telecom gear revamped its board after John F. Reno became CEO in 1993. When he arrived, the board consisted of the two founders plus some academics and consultants—many of them retired or near to it. "The old board, though it had some fine people, had an extremely small knowledge of our business," says Reno.

Revitalizing Dynatech's board was a key element of Reno's strategy, which involved selling off 25 peripheral businesses and remaking the company as a



DYNATECH This Boston telecom-gear maker has seen its stock price more than double in the year and a half since it began a complete overhaul of its board. CEO Jack Reno installed outside directors, including Dennis Kozlowski, CEO of Tyco International.



TIME WARNER To replace three longtime directors who are retiring, management nominated two CEOs who are highly regarded on Wall Street: Stephen Bollenbach of Hilton Hotels and Gerald Greenwald of UAL Corp.



WMX TECHNOLOGIES To boost shareholder value, the company initiated a search for two independent directors. Investor George Soros put forth his own slate, but the board rebuffed him. CEO Philip Rooney resigned. Dean Buntrock is now acting CEO.



COMMENTARY

By Howard Gleckman

FOUR SIMPLE WAYS TO CLEAN UP CAMPAIGN FINANCE

The numbers tell it all: In 1996, a staggering \$2.6 billion was spent to elect 476 people to federal office. That's over twice the dough spent in 1984 and an amount that tops the gross domestic product of Barbados, Grenada, and Belize combined.

To feed this craving for cash, politicians have resorted to all manner of evasion and self-debasement. President Clinton rents out the Lincoln Bedroom as if it were a Motel 6. Members of Congress spend hours each day "dialing for dollars"—begging donors for just one more check. How bizarre can it get? On Feb. 19, Clinton stirred a New York audience with a call for major reforms to the campaign finance system—then hit up the same crowd for \$1 million. As ordinary people abandon the political process, ever more bucks flow to pols through a bewildering maze of political action committees and gimmicks such as "soft money" and "independent expenditures." (table, page 38).

This out-of-control money chase is unseemly, breeds corruption, and undermines voters' confidence in their democracy. "The impact of big money, organized special interests, and political handlers on the public perception of government can hardly be overestimated," says William A. Galston, a former top domestic policy adviser to Clinton.

The Supreme Court, having ruled repeatedly over the past 20 years that campaign giving is a protected form of free speech, has made reform tough. But there's no need to meddle with the Constitution. Campaign fi-

nance can be cleaned up, using four simple precepts: Direct contributions by individuals should be encouraged; backdoor gifts laundered through political parties should be banned; challengers should get a fair shot at promoting their views; and every dollar given to a candidate should be promptly disclosed. "You're going to have to pay for politics one way or the other," says former Democratic National Committee General Counsel

lengers, and Republicans and Democrats. And they should pass constitutional muster:

■ **Improve disclosure and enforcement.** Today, voters must wait months to find out who gives to campaigns, and they often never know who is trying to buy office-seekers until long after an election is over. In the age of computers, they ought to be told within days. "Campaigns should report contributions as fast as they

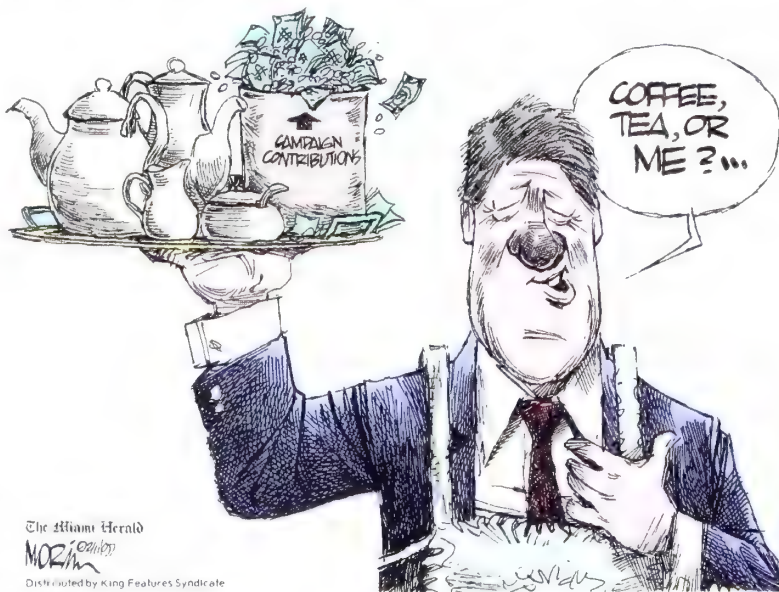
bank them," says Kent Cooper, executive director of the nonpartisan Center for Responsive Politics.

In addition, the toothless Federal Election Commission should be given the power to impose tough penalties. Now, pols routinely evade the rules, since they know the FEC takes years to close a case and rarely does more than issue a slap on the wrist. If any reforms are going to work, the FEC must

move swiftly to levy stiff fines—and even overturn elections.

■ **Raise individual contribution limits.** Today, people can give no more than \$1,000 per candidate for each election in direct "hard money." That 20-year-old ceiling should be raised to at least \$5,000 and allowed to increase with inflation. That would go a long way toward reducing pols' dependence on under-the-table money. So would requiring candidates to raise at least half of their funds from their own constituents. Allowing massive backdoor contributions from inside-the-Beltway lobbyists only courts abuse.

Still, any new law should also recognize that people participate in campaigns collectively, as well as in-



The Miami Herald

MORIN

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Carol C. Darr. "But having it come from individual pockets is a real good thing."

While lawmakers are certainly reluctant to change the system that keeps them in power, public pressure to do so will only grow as the sorry details of scandals such as Donorgate become more apparent. And over the next two years, there is a good chance that at least some modest reforms will be enacted.

Here are a few steps that would help fix the mess. They stress individual participation rather than taxpayer financing; require market-based compromises for broadcasters; and offer trade-offs between business and labor, incumbents and chal-

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dividually. The idea of like-minded voters joining advocacy groups such as the National Rifle Assn. or the Sierra Club to express their views on public issues is the essence of democracy. And these groups, too, should be encouraged to give to candidates of their choice through PACs. Therefore, double their contribution limits to \$10,000, but require full and immediate disclosure.

PACs run by businesses and unions are another matter, however. Today, corporations collect "voluntary" contributions from their employees. The truth is, in many workplaces, there is no choice: Executive pay is inflated to cover political donations, and those who don't go along can see their careers suffer. If companies want to give money to help pols who are good for business, they should do

Under the current lackadaisical system, voters can't find out who bought what politician until long after Election Day

eign businesses—resulted from efforts to raise soft money. For all that hustle, Clinton and the Democrats still garnered \$20 million less last year than did the GOP.

If individuals, companies, or unions really want to give to a party, they should do so directly, in the sunshine. These gifts should be limited to \$5,000. Also, these funds should be used only for legitimate party activities. Big penalties should be imposed if candidates steer these funds to

the unfettered right to argue the merits of policy issues.

But as soon as an advocacy group buys an ad that mentions a candidate, the rules should change. It should be subject

to the same limits and disclosure as PACs and individuals. Each gift by businesses, individuals, or unions to a group that runs such an ad should be considered a direct candidate donation—disclosed and counted against the \$5,000 limit.

■ **Give challengers a fair chance to get their message across.** The best way to do that is to give candidates one hour of free airtime to use as they wish for each election. Office-seekers should be required to qualify by, say, getting names on a petition or raising a minimum amount of money on their own. But one string should be attached: Office-seekers should be required to appear personally in ads, rather than relying on actors to trash their opponents.

Finally, broadcast advertising should be curbed. In some Senate races, fully 70% of all spending goes for TV and radio. If the need for money dries up, so may the dash for cash. In return for giving the free time, broadcasters should be allowed to charge full price for paid ads—which they must now sell at cut rates. But lawmakers should consider limiting political ads

to within 60 days of an election. Since challengers rarely have the money to put on ads before that, it wouldn't hurt them. But limiting the time during which ads could air could cut into incumbents' advantage.

No reform will end every abuse. But these changes will begin to restore public confidence in a political system that is increasingly seen as corrupted. The reforms would eliminate the invisible millions that flow to pols and make campaign donations strictly aboveboard. Ordinary citizens may yet feel they can influence an electoral process that few now believe gives them a fair shake.

Senior Correspondent Gleckman has covered Washington politicians for 20 years.

Where the Bucks Come From

HARD MONEY

Direct contributions to candidates are limited for individual donors to \$1,000 per candidate per election, and \$5,000 from a political action committee.

PACs

Businesses, unions, interest groups, and even politicians themselves raise money from individuals, then combine them to create huge money machines and funnel the cash to favored candidates.

so subject to the \$10,000 limit. But they should use shareholder money (making sure that investors know where their earnings are going) and end the fiction that the donations come from employees' pockets. For their part, unions should stop using dues to support candidates. Instead, members should make their own choices—to give as individuals or through labor PACs.

■ **Ban soft money.** Today, there are no limits on this backdoor cash, which ostensibly supports the general activities of political parties but actually funds candidate races. In the last election alone, more than \$250 million was raised this way—nearly all of it funneled to candidates. The worst of the White House's abuses—including its Donorgate contributions from for-

SOFT MONEY

By laundering this money through political parties, givers can dodge contribution limits. While it is illegal for candidates to control this spending, the law is widely ignored.

INDEPENDENT EXPENDITURES

The newest way to evade the law. Money is spent directly by advocacy groups to influence elections. The infamous Willie Horton ad in 1988 was financed this way. There are no limits on spending.

their own races—as both Clinton and Bob Dole did routinely in 1996.

■ **Curb spending on behalf of candidates by independent organizations.**

With at least \$100 million spent by groups ranging from unions to doctors, this became the favorite loophole of '96 and the money of choice to finance attack ads. The big problem is that money flows from this cash cow completely unrestrained by existing campaign laws. There are no limits on such fund-raising and no disclosure of where these groups get their money or how they spend it. That creates an easy way to spend big bucks on candidates. There is no point in trying to stop these outlays—they'll always find loopholes. Besides, groups such as the AFL-CIO and business coalitions should have



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TRANSPORTATION

BOMBARDIER IS DOING BARREL ROLLS

It grabs the lead in the fast-growing market for small jets

They're the little planes that could. For years, pilots for major airlines looked down on the "puddle-jumpers" used by regional carriers to ferry people to small towns. But nobody in the airline business now is sneering at a new generation of these small craft—and the sweeping changes they are making in the industry. As they evolve from cramped rattletaps to modern jets, the small planes are making regional carriers the fastest-growing sector of the airline industry—and forcing big players to pay attention. Indeed, American Airlines Inc.'s attempt to expand its fleet of regional jets has been one of the sticking points in its ongoing labor strife with pilots of its big jets (page 42).

The company getting the most out of the trend is Bombardier Inc., which fomented the revolution with its 50-seat Canadair Regional Jet (CRJ)—and made itself into the Boeing of regional plane builders. The Montreal-based company last year grabbed 42% of the world market for 20- to 90-seat jets and turboprops, up from just 10% in 1992. Bombardier is the "clear industry leader," says Jim Robinson, president of rival Fairchild Aerospace Co.

DISASTER. And Bombardier is aiming for more. On Feb. 19, it unveiled a \$475 million program to develop a 70-seat regional jet, the CRJ series 700. The \$23 million plane won't be available until late 2000. But Bombardier thinks demand will eventually exceed that for its existing 50-seat CRJ. The goal: grab 60%

of the regional aircraft market, worth \$110 billion over the next two decades.

Bombardier has built this success from the wreckage of Boeing Co.'s disastrous foray into the business of making puddle-jumpers through its 1986 acquisition of Toronto-based de Havilland Inc. By the time Boeing sold de Havilland to Bombardier in 1992, the aircraft giant had lost nearly \$1 billion building Dash-8 turboprops. Bombardier has invested heavily to update the Dash-8 family, tripling its share of the turboprop market—which last year accounted for nearly two-thirds of the 314 regional planes sold worldwide—to 35%.

But the CRJ, which Bombardier began developing as a derivative of its Challenger business jet in 1989, is what gave wing to the company's fortunes. The jet, which Bombardier began delivering in 1992, went a long way toward erasing the image of regional planes as cramped, noisy, and unsafe. Charles E. Curran III, senior vice-president of Comair Inc., which has the world's largest fleet of CRJs, says the planes are quiet and as roomy as the coach sections of bigger jets. Their maximum range of 2,300 miles far outdistances turboprops, typically limited to trips under 500 miles.

CLASSIER: Bombardier's planes are known for more comfort and legroom.

Longer range has allowed the carriers to supplant the hub-and-spoke architecture of air travel with more point-to-point service. Air Canada has used its fleet of 26 CRJs to open more than a dozen new routes between the U.S. and Canada since 1995. Many, such as Vancouver-Chicago are long, thinly traveled and would not be viable if served by a bigger jet such as the 737. With a fleet of 26 CRJs, Air Canada breaks even with just 100 passengers.

A SWARM. Bombardier's doing far better than that. Its Aerospace Div.—which includes both business jets and regional planes—should earn operating profits of \$350 million on sales of \$4.5 billion in fiscal 2000, up from an estimated \$250 million on sales of \$3 billion in fiscal 1997, says Benoit Chotard, an analyst at Montreal-based Levesque Beaudin & Co. The company also makes train cars, snowmobiles, and other transportation equipment.

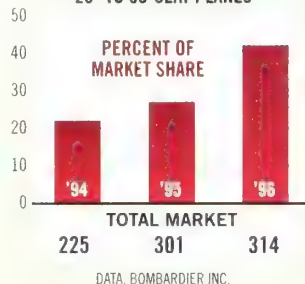
It is no surprise that competitors are swarming. Brazil's Embraer last year began delivering its 50-seat RJ, the EMB-145. Meanwhile, Fairchild is developing a 30-seat regional jet for delivery in 1999. The No. 2 in regional aircraft

AI(R), expects to announce its plans for building a 70-seat jet by the end of this year. So far, the rivalry hasn't dented Bombardier's lead. But more and more of the little jets take to the sky, one certainty is that the big carrier won't be ignoring them anymore.

By William Symonds in Toronto, with bureau reports

GAINING ALTITUDE

BOMBARDIER'S SALES OF 20- TO 90-SEAT PLANES



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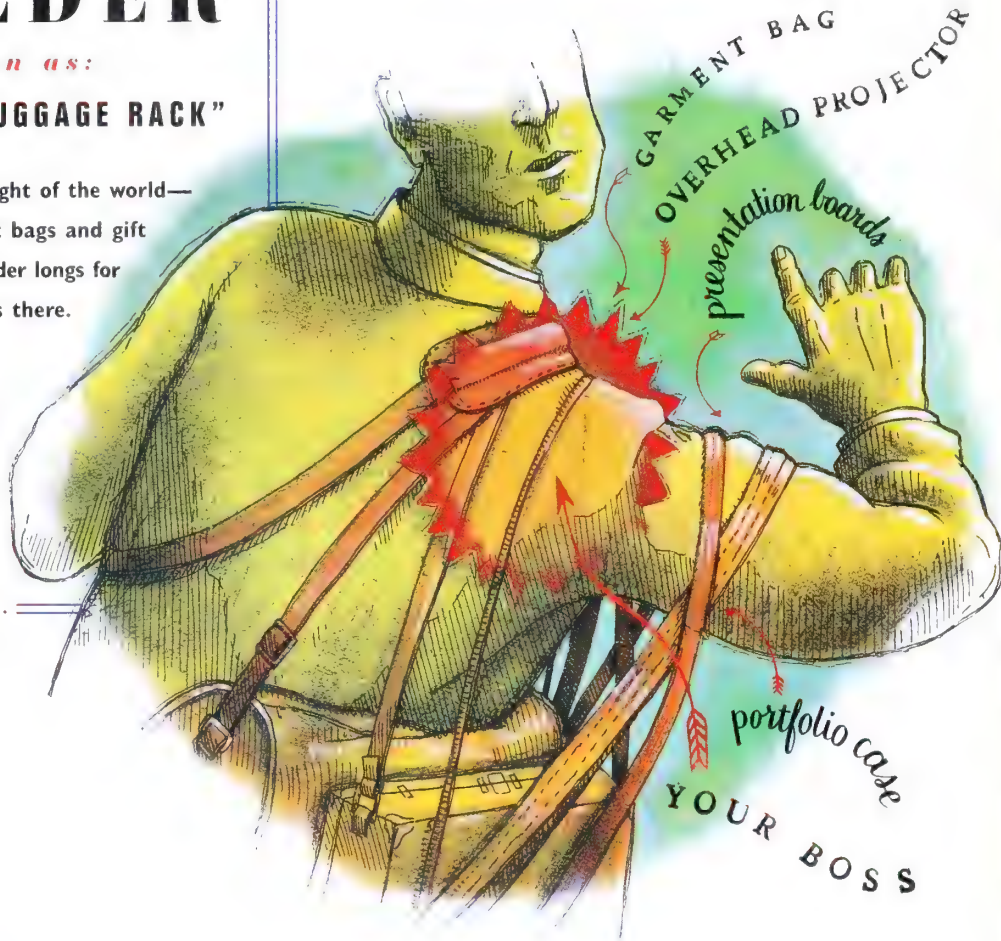
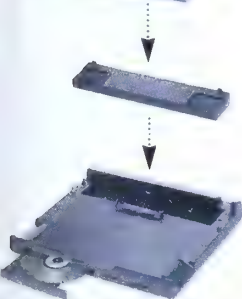
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COMMENTARY

By Wendy Zellner

AMERICAN: WHY BILL DIDN'T NEED TO BUTT IN

At first glance, President Clinton's Feb. 15 intervention in the dispute between American Airlines Inc. and its 9,300 pilots was a dramatic rescue that saved the country from a potentially devastating transport strike. And with the rare appointment of a three-member Presidential Emergency Board (PEB)—providing the advice of outsiders and 60 days of breathing room—the antagonists may finally break the deadlock.

The bad news is that Clinton's move—welcomed by passengers and politicians alike—may, in fact, needlessly prolong the agony of these contract talks. Sources on both sides believe American and its pilots were close to a deal as the 11th hour loomed. But like cameras in the courtroom, the threat of Presidential involvement may have changed the way participants behaved.

EASY OUT? Union sources say some Allied Pilots Assn. (APA) board members rejected a final compromise crafted by the federal mediator precisely because they believed there was little risk in doing so: The PEB, they reasoned, would halt a strike that was going to be costly to the company and to pilots. Union board members could avoid the carnage—and escape the heat for bringing back a contract that fell short of demands by hard-liners in their ranks. "They thought Clinton would save their bacon," says one union leader.

American also had reason to hang back. Some labor experts believe the airline will find a more favorable forum in the PEB, which American lobbied so hard to get. Says Brian A. Mayhew, chairman of the union's negotiating committee: "It was clear the company wasn't going to do any good-faith bargaining." American denies the charge.

The trick now is for the two sides to go back



ON THE GO: Pilots saw little risk in rejecting a pact

to the compromises that they were so close to making. The thorniest issue: the union's demand that only APA pilots fly new small jets that American wants to add to AMR Eagle Inc., its commuter-plane operation. Those pilots are represented by a different union. American insists that it can't operate the small jets economically outside of Eagle, where all employees are paid less than at American. If it doesn't order the new planes, American could fall behind the competition in the latest airline strategy: using small jets to serve thinly traveled routes.

Some union negotiators became convinced that American wouldn't

yield on the small-jet issue—even with a strike. And they weren't likely to win the point before the PEB. So they began to consider other job-security tactics, including setting a floor on the number of American pilots. That idea froze when the clock ran out. But since American contends that the small jets would strengthen the main airline and it's willing to increase restrictions on how they'd be used, a job-security compromise should be close.

As the Feb. 15 deadline loomed, American also offered a 6.5% raise over four years and more stock options up front. That was short of APA's demands, but few believe that the pilots would strike over a pay-and-benefits package that's the best in the industry.

Whether American can avoid another 30-day countdown to a strike after the PEB issues its report in mid-March is uncertain. There's a risk that a divided union, with some leaders soon facing reelection, will only frustrate negotiations. But the divisions could help American, too. Already, some APA board members say they'll push to allow the membership to vote on the PEB's report. They and the company believe the majority of pilots would accept a compromise.

But there's another threat that should give American and its pilots pause before they squander the 60-

day cooling-off period. If they can't resolve their differences in that time, Congress could step in and legislate a solution. Key lawmakers pushed for the President's involvement, and they could act again to avoid the wrath of the flying public. So the two sides ought to find a deal they can live with before they get one crammed down their throats.

FALSE ALARM?

The President moved to avoid a transportation crisis. But American and its pilots seemed close to a deal.

PAY AA was ready to sign a 6.5% raise, up from the 5% the pilots had rejected. Also, it offered options on 5 million shares, priced \$10 below market, on contract signing.

JOB SECURITY Company is prepared to put more restrictions on the use of regional jets that it wants flown by lower-paid Eagle pilots, represented by a different union. APA pilots would have to give up demand to fly the new jets.

WAGE SCALE Two-tier wage system that pays new hires less than vets remains, but some pilots will get seniority credit for furlough time. Pilots want "B-scale" phased out.

Zellner covers transportation from Dallas.

ED BY BILL JAVETSKI

VENTURE CAPITAL'S IN POCKETS

NO MISTAKE: VENTURE capital isn't a cottage industry anymore. A record \$9.5 billion was invested in some 1,200 companies in 1996—\$2 billion more than in 1995, according to a survey released Feb. 21 by Price Waterhouse. Not surprisingly, there was a sixfold increase from 1995 in money going to Internet-related companies. Silicon Valley, which invested \$571 million in 53 companies, remains the venture-capital mecca. Eight other U.S. regions raised more than \$100 million each into new businesses. Still, Price Waterhouse says that the feverish pace will be kept up. "The rate of

growth is going to be leveling off," says Kirk Walden, director of the survey.

DOES ONE BIG THRIFT DESERVE ANOTHER?

IS H.F. AHMANSON A BANK trapped in a thrift's body? That would explain why Ahmanson, the largest U.S. thrift, made a surprise \$6 billion hostile bid for its Los Angeles neighbor, Great Western Financial, the nation's second-largest. If the deal goes through as expected, the superthrift will have a portfolio of \$92 billion in assets, most of them in commodity mortgage loans. Its consumer banking business would be as big as that of California's third-largest bank, Union Bank. Ahmanson figures it can show a nice profit gain by chopping \$400 million from costs after the merger. That would make it one of the few thrifts capable of long-term survival.

MARRIOTT: SHOPPING IN HONG KONG

THE VACANCY SIGN AT HONG Kong-based Renaissance Hotels International came down as Marriott International outbid three other companies for the 150-hotel chain. The bill: \$947 million. The bid is the latest in a rapid industry consolidation—especially among full-service hotels. Hilton Hotels is pressing its \$10.5 billion hostile bid for Sheraton parent ITT. Other acquisitions are likely: Marriott is said to be looking at other properties, while chains such as Westin may be on the block.

OPEN LINES FOR U.S. TELECOM COMPANIES

ALL THAT PRACTICE MAY PAY off for U.S. telecommunications companies. The global

HEADLINER: FRANK SALIZZONI

O.K., PRINT UP NEW BUSINESS CARDS

Frank Salizzoni's résumé needs updating. A year ago, the former president of USAir Inc. was just a board member at H&R Block. Then the top spot at Block opened up, and Salizzoni took over as president and CEO. Now, he's got the same titles at CompuServe, the No. 2 online service that's 80% owned by Block.

The CompuServe job opened up when 51-year-old Robert Massey abruptly resigned after less than two years in the spot. Officially, Massey stepped down "to pursue other interests." But he and Salizzoni clashed over Compu-

Serve's turnaround plan, sources close to the company say. Massey wanted to spend big to stop losing ground to No. 1

America Online. Salizzoni preferred returning CompuServe to profitability by pursuing more modest growth.

Salizzoni says Block still plans to sell its CompuServe stake once the service's fortunes improve. That could be tough considering the slide in the shares from a high of 38 last year to 10½ on Feb. 19. It would also help to find a permanent CEO so he can shed his latest title.

By Peter Elstrom and Peter Galuszka



CLOSING BELL

THE HOUSE LOSES

Donald Trump is rolling snake again. With competition for gamblers driving up the cost of concessions—such as spending on complimentary bus trips and ponies for Atlantic City casinos—Trump Hotels & Casino Resorts Inc. is on a losing streak. It lost nearly \$31 million in the fourth quarter, more than 10 times 1995's fourth-quarter loss. Analysts had predicted a slight profit. The purchase of Taj Mahal and Trump's title last year helped boost revenues nearly fourfold, to \$6.6 billion. But cash flow declined. The share price, at 9½ on Feb. 18, has tumbled 60% since Sept. 1.



AUG. '96 FEB. 14, '97
DATA: BLOOMBERG FINANCIAL MARKETS

pact hammered out Feb. 15 at the World Trade Organization would pry open overseas markets previously closed to foreigners. That should play to the hand of U.S. companies, which already operate in the biggest deregulated market. Nine months of U.S. prodding helped expand the number of countries in the WTO pact from 33 to 55—markets accounting for 95% of world telecom revenues. Previously, the U.S. had access to only 17% of the top 20 markets.

COMPUTER ERROR AT SGI

SILICON GRAPHICS HAS ADDED a dicey international blunder to recent miscues. On Feb. 18, CEO Edward McCracken admitted "errors in judgment" by not asking the "right questions" prior to selling four computers worth \$650,000 to a renowned

Russian nuclear-warhead lab. The lab claims the machines are to be used for environmental research. The Commerce Dept. is probing to see if SGI violated export rules. Some analysts wonder if bottom-line woes may have contributed to SGI taking the Russian claims at face value. SGI's share price has fallen 45% since mid-1995, following parts shortages, late product introductions, and problems integrating Cray Research, acquired last year.

ET CETERA...

- Marco Landi resigned as executive vice-president at Apple Computer.
- Centennial Technologies' CEO was arrested and charged with stock fraud.
- HealthSouth agreed to buy Horizon/CMS Healthcare for \$1.7 billion.
- Ford Motor sold its heavy-duty truck business to Daimler Benz.

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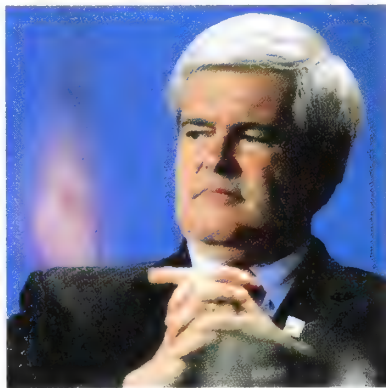
WHY THE GOP'S RIGHT WING FINDS ITSELF ADRIFT

For House conservatives, 1997 is starting to look like the endless bummer. Republican revolutionaries' woes go far beyond the precarious standing of House Speaker Newt Gingrich (R-Ga.). In rapid-fire succession, they've seen term-limits legislation go down, failed to stop a bill funding international family planning, and watched helplessly as support for a balanced-budget amendment eroded. Adrift and beset by the Clinton administration, the right finds itself forced to respond to a centrist agenda set by President Clinton.

Conservative activists are divided about how to regroup.

Some say Republicans must stress such controversial policies as opposition to racial preferences and a radical shrinking of the federal bureaucracy to differentiate themselves from the Democrats. But others want to downplay hot-button issues and opt for an incremental approach more in line with the let's-make-a-deal style of Senate Majority Leader Trent Lott (R-Miss.) In the debate rages, the House—which has been relegated to the sidelines and the party's moderates are gaining clout. "House conservatives have a big problem, and there's no apparent solution," sighs a GOP lobbyist.

FAITH? Increasingly, conservatives pin their hopes on Gingrich. To rehabilitate his image after his ethics reprimand, the Speaker is making overtures to GOP moderates on the environment and affirmative action and even reaching out to Democratic liberals. Gingrich infuriated the faithful by inviting the Reverend Jesse Jackson to sit in the Speaker's box during Clinton's Feb. 4 State of the Union speech. "The Speaker is showing a lack of faith in his convictions," says conservative fund-raiser L. Brent Bozell III. Adds GOP business consultant Ward Connerly, who led the drive to end affirmative action in California: "He has to remember who brought him to the dance."



GINGRICH: *Twisting in the wind*

Some on the right say Gingrich has been so severely wounded he'll never recover—and the GOP would be better off with a new leader able to craft and sell an agenda. "Newt is a millstone," says one GOP lawmaker. In fact, many Republicans privately believe Gingrich will be pressured to step down as Speaker by the end of his term—if not sooner.

Already, uncertainty about Gingrich's future has sparked jockeying to replace him. His likely successor, House Majority Leader Dick Armey of Texas, isn't a sure bet. Armey's doctrinaire conservatism turns off moderates, and he lacks national stature. "He's more an inside organizer," says one GOP operative. So if Gingrich quits abruptly, conservative elder statesman Representative Henry J. Hyde (R-Ill.) may be drafted as interim Speaker.

While Gingrich twists in the wind, many conservatives want to ditch his tread-softly approach. On Feb. 13, nearly 70 House GOP conservatives unveiled a list of legislative priorities that includes a ban on late-term abortions, an end to the use of union dues for political purposes, and the elimination of racial preferences in federal contracts. "There's a void out there in the leadership agenda. We're going to fill it," vows Representative Sam Johnson (R-Tex.).

That's a long-shot strategy, given the GOP's own rifts and slim 21-vote edge. But that doesn't bother true believers. "Sometimes it's better to go down in defeat and define yourself positively that way," says Bozell.

The leadership's strategy is to avoid losing causes while piling up legislative gains until 1998, when the GOP hopes to capture more seats. But unless they patch up their own differences and rally behind an agenda, House Republicans may spend the next two years as bit players in a drama scripted by the White House and the Senate.

By Amy Borrus, with Richard S. Dunham

CAPITAL WRAPUP

LIENS' ADVOCATE

Business backers of current legal-immigration laws are cheered that Senator Spencer Abraham (R-Mich.) has replaced retired Alan K. Simpson (R-Wyo.) as chairman of the Senate Judiciary Committee's immigration subcommittee. Abraham, whose wife and parents emigrated from Lebanon, is an outspoken critic of efforts to limit the influx of legal aliens. They have been a critical source of hiring for many high-tech companies, who face domestic labor

shortages. Simpson had led the fight to curb legal immigration, but now prospects for action are dim.

THE COHEN PAYOFF

► The Clinton Administration may reap quick dividends from the appointment of Republican William S. Cohen as Defense Secretary. He favors ratification of a global chemical-weapons pact and a delay in deploying a missile-defense system. Those stands make it harder for Senate GOP hardliners to block the pact and seek swift deployment of the defense system.

RUBIN & RUBIN?

► Vice-President Al Gore may soon be turning regularly to Bob Rubin for economic advice. No, not Treasury Secretary Robert E. Rubin but Wall Street financier Robert M. Rubin, executive vice-president of AIG Trading Group Inc. in Greenwich, Conn., a unit of the financial-services giant AIG. Rubin No. 2, who gave the Democratic National Committee \$100,000 last year, declines to respond to word by Administration insiders that he'll be joining the Veep's staff.



NATO MANEUVERS: Paris wants Washington to ease some commands, especially in the Mediterranean, and that (r)

FRANCE

NO STRENGTH, NO GLORY

A weak economy saps Chirac's drive to restore Gallic prestige abroad

French President Jacques Chirac would like nothing better than to go down in history as the father of a new era of European foreign policy—one with a distinctly French flavor. To stake his claim, the energetic leader is working overtime to raise France's voice in international affairs. In a flurry of

diplomatic missions over the past 18 months, Chirac has been popping up in Middle East crisis zones, elbowing into the dialogue between Russia and NATO, and pushing Eastern Europe's entry to the European Union. "We want to be like a motor for creating a European foreign policy," a senior aide to Chirac told *BUSINESS WEEK* in a recent interview at the presidential palace.

Understandably, Chirac is eager to restore the power and position that France lost in the wake of German unification. Putting a French stamp on 21st century European foreign policy would go a long way toward alleviating the post-cold-war identity crisis that has plagued France for six years.

But Chirac's strategy could backfire. With the French economy in the red, unemployment near 13%, and parliamentary elections approaching in 1998, Chirac urgently needs to shore up his popularity. And voters care more about their jobs and incomes than about France's role on the world stage.

Indeed, Chirac's foreign policy focus may be putting the cart before the horse, distracting him from urgent problems at home. As campaign staffers for U.S. President Bill Clinton reminded one another before Clinton swept George Bush out of the Oval Office in 1992: "It's the economy, stupid." The French President seems to forget that without economic strength, his country is unlikely to gain political clout. "A weak France will not be able to lead Europe," says Dominique Moïsi, deputy director of the French Institute of International Relations in Paris. **WAXING ELOQUENT.** That partly explains why Chirac's diplomatic initiatives have stirred irritation in world capitals. France's declining economy undercuts its urge to play kingmaker in European affairs. For instance, on her first tour of Europe's capitals this week, newly confirmed U.S. Secretary of State Madeleine K. Albright gave short shrift to several French proposals.

She brushed aside the Russian idea, backed by France, for a "four-plus-one" summit meeting in April of the U.S.,



SHED ASIDE Chirac's ts to play kingmaker in pe were given short shrift S. Secretary Albright

many, France, Britain, and Russia resolve Russian objections to the enlargement of NATO. Instead, on Feb. 18, Chirac offered an alternative proposal to create a joint NATO-Russia military command. Albright also ignored France's recent bid to include Romania, a country it considers within its sphere of influence, in the first wave of new countries added to NATO.

In contrast, Albright tacitly acknowledged America's reliance on Germany as its key European partner. In a minute conversation with Chirac, Albright spoke "nearly fluent French," acting as an aide who was present, but didn't go into detail on any key topic. On her arrival in Bonn, however, she seemed eloquent about the special rela-

tionship between the U.S. and Germany and set to work with Chancellor Helmut Kohl's team on the details of a strategy to win Russian approval for adding at least Hungary, Poland, and the Czech Republic to NATO before a July 8 summit meeting.

Even France's European partners are less than enthusiastic about Chirac's initiatives, complaining that he often passes off French national interests as European. Patronage of francophone Romania is one example. "Chirac claims to speak for Europe, but clearly he's speaking for France. He's running ahead of European partners without their backing," says Heather Grabbe, an analyst at the Royal Institute of International Affairs in London.

German officials, even when annoyed, tend to tolerate France's grandstanding. That's because they need French cooperation to continue making progress toward the shared goal of greater European economic unity. But Germany's acquiescence goes

only so far. When it comes to the French urge to shrink the role of the U.S. in Europe, Bonn balks. France has proposed that the U.S. cede a number of its command posts within NATO, especially in the Mediterranean. "The German priority is that the U.S. remain in Europe," says Werner Kaltefleiter, of the Institute for Security Studies in Kiel.

Washington officials say it's unthinkable that anyone but an American command the U.S. Sixth Fleet in the Mediterranean. France now says it intended only to propose an integrated French, Spanish, and Italian naval fleet under European command. The idea of a European fleet is "crazy," says Kaltefleiter. "What's it worth without the

Americans?" French aides say Chirac may go back on his pledge to integrate France's military into NATO unless the U.S. accepts an independent European command in the Mediterranean. But most expect France to find other concessions that will allow it to join NATO's military command this year.

In some cases, France's unilateral initiatives have served a greater European purpose. The difficulty of getting all 15 members of the European Union to agree on anything means that each time they can rally around an issue, the EU takes another step toward its long-term goal of political unity. For example, French officials point out that Chirac's meddling in the Middle East peace process last year led to the appointment of an EU representative to the region. French shuttle diplomacy following an outbreak of violence on the Israeli-Lebanese border last May infuriated U.S. Secretary of State Warren Christopher, but it led to the creation of a five-country surveillance committee to monitor a ceasefire, co-chaired by the French and the Americans.

STALEMATE. Yet even if such coups raise France's global political profile, Chirac may be fiddling while Paris burns. Although French Presidents traditionally leave domestic policy to their Prime Ministers, Chirac's beleaguered Prime Minister, Alain Juppé, has made little headway with urgently needed economic reforms. Efforts to restructure the social security system have failed, state-owned companies continue to bleed money, and panicked workers are stepping up strikes and boycotts.

The stalemate requires an all-out campaign to persuade workers that deregulation, privatization, and competition will create jobs, not destroy them. Only by throwing his energies into economic growth will Chirac build a stronger France and get the worldwide respect he craves.

By Gail Edmondson in Paris

CHIRAC IS TARGETING FOREIGN POLICY...

Brought France into the Mideast peace talks last year by brokering an Israel-Lebanon ceasefire

Backed "four-plus-one" summit between Allied powers and Russia on NATO enlargement

Insists the European Union should include Poland, Hungary, and the Czech Republic by 2000



JOBLESS: An urgent need for reform

...AS FRANCE'S ECONOMY WORSENS

▶ Steadily climbing unemployment could hit 13% this summer

▶ Workers agitate to raise benefits and add to job protection, but the social security system is bankrupt

▶ State-owned companies still bleed billions of dollars, while efforts to privatize them have stalled

DATA: BUSINESS WEEK

GERMANY

RIVALS ARE BUZZING ALL AROUND LUFTHANSA

European deregulation makes it vulnerable

When Frederick Reid takes the controls at Lufthansa on Apr. 1, he had better strap in for a rough ride. Reid, the first American ever to head a non-U.S. air carrier, will fly straight into the final phase of Europe-wide airline deregulation, due to kick off the same day. For the first time in its 72-year history, Germany's flagship carrier will have to compete on even terms with rivals from upstart discounters to huge foreign airlines. At the same time, Reid may face strikes by Lufthansa pilots unhappy with the airline's cost-cutting plans.

Chief Executive Jürgen Weber on Feb. 10 picked the 46-year-old Reid, an American Airlines Inc. veteran whose first Lufthansa job was running its North and South American operations, to head its passenger business. His new mandate as president and chief operating officer: to cut costs further and streamline decision-making. Just five days earlier, the company had announced the next step in an ongoing management restructuring. The new reorganization will sweep away a layer of middle management and allow Lufthansa to respond more swiftly to changes such as price cuts by competitors.

TARGET. Frankfurt-based Lufthansa has made great strides in reducing costs in recent years. But Reid knows the airline must redouble its efforts or risk losing business in Europe's biggest, richest domestic market. With competition wide open, the downward spiral of fares that has already begun will only accelerate. Low-cost, no-frills lines such as Britain's Debonair Airways could grab hordes of Lufthansa customers. "This company has one more opportunity left to change fundamentally or go down the drain," warns one airline consultant.

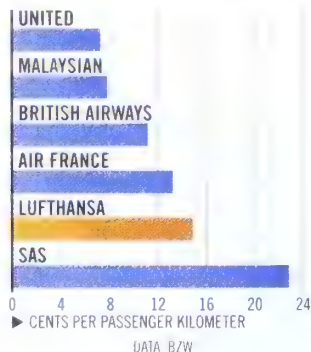
Germany is a juicy target for rival airlines. Analysts estimate that fares are up to 20% higher than the European average. Luft-

hansa, which has a lock on some domestic routes, has been able to charge its passengers premium fares. In January, Germany's federal antitrust office accused Lufthansa of gouging customers on the Frankfurt to Berlin route, which it dominates. Business travelers pay \$470 round-trip, vs. \$380 on such longer routes as Cologne to Berlin, where Lufthansa has competition. No final ruling has been made.

Already, major competitors such as British Airways PLC are trying to siphon off Lufthansa passengers. For instance, BA offers restricted fares as low as \$130 round-trip from Hamburg to its London hub, which Lufthansa has now matched. Since BA's costs are 25% lower than Lufthansa's (chart), it can better afford such price wars. Indeed, Lufthansa last fall warned that tougher competition would squeeze 1996 profits below the \$500 million earned in 1995. To fight back, Lufthansa is negotiating to expand its alliance with United Airlines to include other global carriers, such as Air Canada or Thai International Airways.

Cut-rate upstarts are likely to pose a bigger threat to Lufthansa than the giant carriers. Already, Nuremberg-based Eurowings charges \$250 to fly full-fare economy class from Cologne to Nuremberg, vs. \$414 on Lufthansa. As the little guys expand in the wake of deregulation, Lufthansa will be squeezed.

HOW LUFTHANSA'S COSTS STACK UP



WOES GALORE

Lufthansa faces labor troubles as well as low-cost upstarts and foreign giants

Discount operators excel at short hops, where passenger care less about service. Lufthansa is trying to shift its short-haul business to franchisees and partners such as Augst Airways and Contact Air. To

fly under the name Team Lufthansa, but their operating costs are up to an hour below Lufthansa's, estimates Uwe Weinreich, aviation analyst at Bank in Frankfurt.

EARLY VOTE. To trim costs on its flights, Lufthansa is trying to lower wages down and boost productivity. The pilots' union, DAG, has balked at the 1.5% annual pay hike agreed to fall by ground and cabin crews. The pilots are expected to approve a strike voting that wraps up on Feb. 25. DAG chief negotiator, Michael Tarp, is fighting for a bigger pay hike and to shorten the contract to 12 months. He says pilots worry that Lufthansa would use a longer contract to farm out more work to lower-cost franchisees, because German unions can't strike in the middle of a contract period.

A strike could come as early as Feb. 26. Industry experts are betting that Lufthansa will compromise rather than provoke a long strike that would allow rivals to swoop in. But company negotiators had better squeeze out some productivity gains in return. Otherwise Reid will have less chance to survive the looming dogfight.

By David Woodruff in Bonn

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VALUE of a
second opinion.

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TEAMWORK WORKS. In a recent study conducted by BLOOMBERG PERSONAL magazine, mutual funds run by multiple managers were shown to be better than those run by only one. WHY? ONE reason: "(TEAMS) are more likely to have a disciplined method for investing." AFTER all, individual managers don't have the same accountability when it comes to keeping a fund within its classification. THIS can lead to impulsive buying and selling and, ultimately, what the industry calls "style drift." PLUS what happens to a fund that's individually managed when that one manager goes on vacation? OR leaves? THAT's why at Putnam, we have teams of managers, analysts, and strategists. IT ensures that the necessary checks and balances are always in place to keep a fund consistent with its goals. AND that our funds benefit from a mix of different skills, experiences, and points of view. It's something we've learned from our 60 years of experience in the business. AND in fact, with almost seven million individual investors, we've got more than just a second opinion on our side.

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JAPAN

WHO'S MESSING WITH THE MARKET?

A stock dispute spotlights the pitfalls of Japanese trading

Hiroshi Teramachi is well known around Tokyo as chairman of THK Co., the patriarch of one of Japan's richest industrial families, and a high-stakes investor in everything from Chinese medicine to knitting machinery. So nobody lifted an eyebrow when a caller named Utsugi phoned Compagnie Financière de Paribas' Tokyo asset-management unit late last year and said Teramachi wanted to buy 856,000 shares in a small auto-parts maker, TDF Corp. Nor did any alarm bells sound when Nomura Securities Co. received a buy order from Teramachi's company for 1.7 million more shares of TDF on Jan. 17. Nomura, after all, was THK's underwriter, and it's not uncommon for clients to put in big orders by phone and see them executed immediately.

Now everybody is running for cover.



TERAMACHI: THK's chairman denies making \$85 million in buy orders

Teramachi, 72, whose company makes precision bearings, denies having proved the \$85 million worth of orders and refuses to accept the shares. The status of the trades unclear, but shares have plummeted 85% on the over-the-counter market (chart), leaving Nomura and Paribas with combined losses of as much as \$72 million if they get stuck with the stock. "We feel we are the victims of a large manipulation," says a Paribas spokesman in Paris. Nomura spokesman says only that the firm is having a dispute with an unidentified client and is mulling legal action to recover any losses. "Nobody knows the truth," says Noriko Takahashi, an analyst at UBS Securities Ltd. who has been following the dispute.

FROWNED ON. The incident is giving the public a rare glimpse of how shares of small, thinly traded companies such as TDF can be easily manipulated by speculators. One Western manager and the Japanese business magazine *Zaikai* claim that TDF was the target of a trading technique known as "catch ball." In this game, which is frowned upon but isn't illegal, members of a ring buy and sell shares of a company among themselves.



Nick Hanauer, Sr. Vice President, Sales and Marketing, Pacific Coast Feather Company

ive up its share price. Then they
ut, leaving unsuspecting investors
ng the stock as it falls. The re-
may explain why even in a falling
et, the automobile parts compa-
shares soared more than 1,000% in
1996 and early this year before
finally plummeted back to earth.

Whether Teramachi
elf played any role
e gyrations of TDF's
is unknown. Ac-
ng to one market
r, the industrialist
even have been
le-crossed by an-
r speculator who
d the buy orders
aribas and Nomu-
without his knowl-
e, Teramachi could
e reached for com-
. But he has told
ese newspapers
he didn't order any

stock—and doesn't know who did.
company also maintains that all it
was give Paribas Asset Manage-
Japan Ltd. \$24 million to buy Ital-
onds on Nov. 20, only to see its
est canceled in writing by Utsugi
changed into an order for shares
F.
Utsugi's first name and whereabouts

have not been revealed. But THK says
his cancellation notice did not bear
Teramachi's official seal, and it is de-
manding its \$24 million back. Paribas,
meanwhile, says the president of its
Japanese asset-management unit, Kazu-
ki Adachi, stepped down in January.
Paribas maintains that Adachi handled

the purported THK or-
ders personally, by-
passing the company's
internal controls. He
could not be reached
for comment.

SOY BET. Teramachi
has been in hot water
with investors before
for making market bets
that have gone awry.
Before he assumed

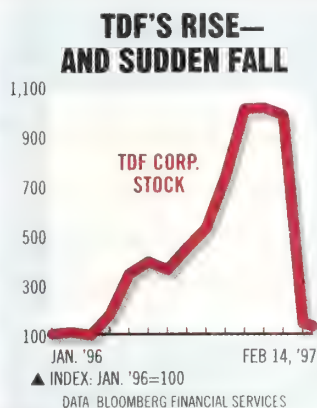
control of THK, which he took public in
1989, Teramachi ran Nippon Thompson
Co., a manufacturer of industrial bear-
ings that he founded in the 1950s. In
1969, Nippon Thompson invested in the
soybean and silk markets, only to come
out a big loser. A year later, stock-
holders forced Teramachi to cover the
losses by selling his controlling stake in
the company.

Last year, Teramachi raised \$180
million from investors. He plowed much
of the cash into Japanese stocks and
Nikkei index funds. With the Tokyo
market down 12% since THK made the
moves last September, the company is
sitting on \$24 million in paper losses,
says UBS's Takahashi. THK's shares have
fallen a third from last year's highs, to
\$8.90 apiece, as concerns mount that

it might sell its stakes in several
other companies to pay for trad-
ing losses.

On Jan. 27, THK announced that
Teramachi had resigned and that
his son, Akihiro, had taken over
as president. That did little to
calm investors' nerves. Unless
THK settles its arguments with
Nomura and Paribas soon, things
could get even nastier for the
Teramachi clan.

*By Brian Bremner in Tokyo,
with Mia Trinephi in Paris*



The incident gives the public

a rare glimpse of how
shares of small, thinly
traded companies can
be easily manipulated

Pacific Coast Feather Company puts customers' orders to bed 40% earlier.

Pacific Coast Feather Company, a small family-owned firm in Seattle, they

producing so many down comforters and pillows, things were starting

a little uncomfortable. So they called SAP to help them keep up.

SAP's R/3 software, they decreased their order turnaround

by 40% and integrated all eight of their manufacturing

s. Now, with communications open, they're able

ack an order from start to finish, do more

ess with less inventory on hand and know

xact amount of raw materials they

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leeping better themselves.

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EDITED BY JOHN TEMPLEMAN

NORTH KOREA'S BITTER CHOICE: FAMINE OR FOREIGN AID

The immediate diplomatic crisis triggered by the defection of Hwang Jang Yop, 74, secretary of the North Korean Workers' Party, is over. Pressured by China and driven by its desperate need for food aid, Pyongyang abruptly lifted its bizarre vigil outside the South Korean Embassy compound in Beijing and decided on Feb. 17 to let Hwang go. Washington and Seoul are salivating over the inside knowledge they can now glean about the world's most secretive regime. They are keen to keep food and energy aid flowing. They hope that four-party talks to stabilize the Korean peninsula, where 37,000 U.S. soldiers are based, can begin.

But any expectations for business as usual in the North may be ill-founded. The political and economic situation is worsening by the day. Hwang's defection may widen the split between hardliners and reformers in Pyongyang and could spark purges of the reformers. The North's food crisis also threatens the July 8 inauguration of Kim Jong Il as head of state and Secretary-General of the Workers' Party. It is required by custom to provide rice gifts to the people. If his inauguration is postponed, "there will be a leadership crisis," warns Masao Okonogi, political science professor at Tokyo's Keio University.

Hwang, architect of the North's policy of *juche*, or extreme self-reliance, was a close adviser to strongman Kim Il Sung, who died in 1994. But Hwang's influence waned as Kim Jong Il took over from his father, strengthened ties with the military, and downplayed the *juche* ideology. Although he was no longer part of the power elite, Hwang's defection puts reformers, who favor swift diplomatic and economic opening to the West, under a cloud. Many are likely to be marginalized or purged. For their part, hardliners fear that Chinese-style economic reforms, backed by North Korea's reformers, could undermine the regime's authority. If hardliners gain complete

control, the North's economic decline will speed up.

Famine is, however, the biggest threat to the regime. Devastating floods in 1995 and 1996 wiped out or badly damaged nearly 1 million acres, or 20%, of the North's farming land, according to the World Food Program (WFP). As a result, the country lacks half the 5.4 million tons of cereal it needs this year. The government has cut rice rations to about half a bowl a day. Edible roots and livestock have become scarce. Even members of the elite are growing thin.

People, starting with children, will likely soon begin to die in massive numbers.

GUERRILLA WAR? Promises of food aid are growing, but not fast enough. U.S. and Japanese pledges totaling over \$10 million are a sizable slice of WFP's \$40 million goal for North Korea. But the country needs 10 times as much, says Stephen Linton, chairman of the Eugene Bell Foundation, which channels aid there.

The political danger will peak in March and April. By then, it will be apparent whether food aid will arrive in time for Kim's inauguration. "[If not,] there's a 60% chance the military could start a guerrilla war in the South," warns Katsumi Sato, president of the Modern Korea Institute in Tokyo.

The North certainly has the capability to mount a terrorist campaign in the South. Before his defection, Hwang had revealed that the North has 50,000 agents in the South, far more than the South had publicly estimated. And on Feb. 15, another prominent defector was shot by suspected North Korean agents in suburban Seoul.

The North's leaders know they need foreign help to stay in power. But they also fear that further opening will lead to chaos and collapse. Hwang's defection has only sharpened their dilemma.

By Steven V. Brull in Tokyo, with Sheri Prasso in New York



KIM: He can't afford to be inaugurated empty-handed

GLOBAL WRAPUP

ANOTHER FRENCH BAILOUT?

France's biggest bank, Crédit Lyonnais, has its begging bowl out again. This time, the state-owned bank wants the government to stump up \$3.5 billion more or so of aid. As with two previous handouts, totaling nearly \$9 billion, the bank says it needs cash in order to prepare itself for privatization.

Even if French taxpayers haven't lost patience, Crédit Lyonnais' rivals have. Last year, German bankers started muttering about unfair compe-

tition and the need for a level playing field. Now, a French bank is doing something about it. Société Générale President Marc Viénot says he will file a complaint with the European Court of Justice against the European Commission's authorization for the French government to pump \$685 million into Crédit Lyonnais last December.

A SETBACK FOR MEXICO

► Mexico's drug czar, General Jesús Gutiérrez Rebollo, was fired on Feb. 18 after just 72 days in the job. Mexican legal authorities allege that he

was in the pay of drug cartel overlord Amado Carrillo Fuentes. Although he denies it, Gutiérrez is alleged to have used his post as commissioner of the National Institute to Fight Drugs to favor Carrillo's cartel by harassing its rival cartels. Gutiérrez' dismissal comes as a severe blow to the military, reputedly the least corrupt of the nation's institutions. And it could prove costly for Mexico. In two weeks, the U.S. will be certifying countries for aid based on the vigor of their individual battles against the drug trade.

NEW VENTURES

A LOT OF LEAGUES OF THEIR OWN

Corporate America spies the future: Women's team sports

The SuperShow is always a zoo. More than 3,000 companies and 110,000 people jam the world's largest sports-products trade show in Atlanta every February. But this year, there was a new reason to elbow: women athletes. Hundreds pushed to get a peek as Reebok's Ragin athletic shoe, endorsed by American Basketball League (ABL) star Saudia Roundtree, was unveiled. And there was a major crush to spot hot hoopsters Lisa Leslie and Sheryl Swoopes when Nike announced a five-year deal with the Women's National Basketball Assn. (WNBA).

It's the girls' turn to score, and Corporate America is taking notice. With four new women's pro leagues formed since last summer's Olympics (including a soccer league announced on Feb. 15 during the SuperShow) and more skilled and recognizable female athletes than ever before, sponsors are rushing for the front-row seats of women's team sports.

For decades, women's individual sports, such as golf and tennis, have drawn fans, sponsors—and big money. The record of women's team sports has been decidedly dicier. At least three tries to get the ball bouncing in women's basketball leagues have failed. Now, however, expanded collegiate sports programs for women have helped create a pumped-up new generation of athletes—and fans. And with the stunning success of American women athletes at last year's Summer Olympics, the outlook for commercial success in women's team

sports has never been brighter. "We saw an excitement coming out of the Olympics, not only with women's basketball but across the board, that took women's sports a credibility notch up," says Anthony T. Ponturo, sports marketing vice-president for Anheuser-Busch Cos., a WNBA sponsor. "We like that [the



COMIN' AT YA: Fastpitch League prospect Amy Orr

WNBA] has the NBA behind it and that it's a real sport—not gimmicky, not pandering to the female audience. And from a marketing approach, we as an advertiser can own the category...all-exclusive, something you can't do with a bigger league already established."

A string of other big corporate names also has seen the light of the Olympic afterglow. AT&T Wireless Services in October paid \$3 million to become the title sponsor for the Women's Professional Fastpitch League (WPF), whose six teams will begin a 72-game schedule in June. The ABL has a bevy of local and national sponsors, including Reebok International Ltd. and McDonald's Corp. Last year, the Women's Professional Volleyball Assn. (WPVA) took in more than \$5 million from such sponsors as Evian, Nissan, and Coors Light. And the WNBA, which will hit the boards with eight teams in July, has assembled a roster of sponsors that in addition to Bud Light includes Nike, Champion, Spalding, and Lee Jeans. A source close to the WNBA estimates that each brand has committed about \$10 million apiece over three years. "I remember being at the gold medal games in the Georgia Dome at the Olympics with hundreds of fans. That was when I knew [the league] was going to work," says WNBA Commissioner Val Ackerman, who played for the University of Virginia in the 1970s.

SPECTATOR SURGE. Not everyone is too confident, but unlike earlier efforts, today's leagues seem to be in the right place at the right time, with strong financial backing. Both the Women's Professional Basketball League and the Women's American Basketball Assn., two previous leagues, lacked fan support and sponsor interest. And they didn't have the buzz created by a world-class event like the Olympics.

The sea change in women's team sports can be traced to the 1972 passage of what has come to be known as Title IX, the law prohibiting gender discrimination in programs that receive federal funds. The impact of Title IX has been dramatic: In 1970, 1 in 27 girls played on a high school team. By 1996, that figure was 1 in 3, according to the Women's Sports Foundation.

Greater opportunity has led to bet



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so advanced
it's actually hours
ahead of
the competition.



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female athletes, and greater success has attracted more spectators. It was only eight years ago that the University of Connecticut women's basketball team played before just 287 fans in the front half of a doubleheader shared with the men. On a Sunday in January, UConn's No. 1-ranked women drew 16,294 in a game against Tennessee, a bigger audience than either of two National Basketball Assn. games that weekend. Overall, women's National Collegiate Athletic Assn. Div. I attendance has jumped from 1.1 million in 1982 to 4.2 million in 1996.

All that means that marketers have a much larger pool of young women who could develop an allegiance to their products through sports. But sports-minded women consumers may not be an easy sell. They tend to try different products and often switch brands unless, according to C.B. Bhattacharya, assistant professor of marketing at Emory's Robert C. Goizueta School of Business, the product is endorsed by an athlete they admire. And for most women that means being able to identify with the athlete on and off

the court. Whether big names like ABL's Dawn Staley and the WNBA's Becca Lobo can draw fans to product remains to be seen.

Still, with a women's soccer league now in the works and the U.S. hosting the women's world soccer championship in 1999, more sponsors are expected to jump into this nascent market. Trouble is, it will be some time before it's clear much of the women's team-sports market is sizzle and how much steak.

By Gigi Barnett in Atlanta, and Skip Rozin in Concord, Mass.

MAKE WAY FOR JAYNE GRETZKY

A huddle of hockey parents shiver on the sidelines of an indoor rink near Boston, watching their kids slap sticks. The pint-size skaters flash up and down the ice, knees bent and backs arched. Suddenly, out of the pack scoots 41 inches of pads and face mask—stick held low, legs stretched for every oomph of speed. And streaming behind the helmet of 6-year-old Stephanie Pagonis, in her second season with Assabet Valley Girls Ice Hockey in Concord, Mass., a ponytail.

This is girls' hockey, and it is emerging as one of the hottest new team sports for women. The number of females playing what has long been known as a macho blood sport is startling: During the 1990-91 season, 5,533 female ice hockey players registered with USA Hockey, the sport's governing body. Today, registration is close to 21,000, and that doesn't count kids playing pickup games on frozen ponds from Massachusetts to Minnesota. Add 25,000 more playing on teams in Canada, and women's ice hockey becomes one of the fastest-growing games in North America.

OLYMPIC SPORT. One big reason for such growth is the change in attitude toward women's sports. In Minnesota, when rink time became an issue, women legislators in 1993 pushed through a law guaranteeing equal access during prime hours for males and females: In three years, high school girls' teams went from 8 to 67, amateur clubs from 20 to more than 200. Numbers like those encouraged Hillerich & Bradsby Co., the parent of Louisville Slugger and Louisville Hockey, to introduce a complete line of

equipment designed for women.

In 1998, women's ice hockey will debut as a medal sport at the Winter Olympic Games in Nagano, Japan. The game that many TV viewers will see for the first time next February differs from the National Hockey League version that often



HOCKEY DUEL: The U.S. takes on China

produces as many fights as goals. Women's ice hockey features the kind of crisp passing and adroit stick handling associated with European hockey. No checking is allowed, but that doesn't mean it's a wimpy game. Players chasing the puck often crash

into the boards—and one another.

"NHL hockey is a game of intimidation, of force and strength," says Art Berglund, USA Hockey's senior director for international administration. "Women's hockey is a game of skill."

It is also not new: Women have been playing nearly as long as men. The first organized all-female ice hockey game was played in 1892, in Ontario, Canada. The first international match was held between the U.S. and Canada in 1916, a year before the NHL's birth.

Still, says Cammi Granato, a member of the U.S. Women's National Team that will compete at Nagano and spokesperson for Louisville Hockey's new line of women's equipment: "We're introducing a sport to people who don't know it exists. We have a chance to...show them a pure form of ice hockey without all the blood."

"Seeing us will teach little girls not to accept other people's limits," continues the 25-year-old Granato, whose brother, Tony, is now an NHL All-Star with the San Jose Sharks. "All my life, people said I would quit, that it's a boy sport—and that I was something strange for playing it. But I'm not. Girls need to know they can do this and be respected."

Up and down its ranks, women's ice hockey seems to be about females breaking barriers. Louisville Hockey even preaches it. Says Kelly Dyer, an East Coast Hockey League goalie who is working with Louisville Hockey: "Our slogan is 'Don't tell me what you can't do.'"

By the time Stephanie Pagonis has grown up, that slogan may sound pretty outdated.

By Skip Rozin in Concord, Mass.

f a problem is taken care of before it
ecomes a problem...



id it ever exist?

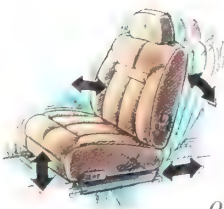
Networking isn't a new concept. Even with the current crescendo of talk about the Internet, intranets and now, extranets, the basic principles haven't changed much in years. But the increasing problems of implementation, complexity and security certainly have. Which can be more than a little worrisome when you have to trust your mission-critical business processes to a network.

Perhaps you should consider MCI®. Why? Because, although well known for communications, we're very much a mainstream supplier of information technology, with MCI SystemhouseSM rated by industry analysts as a leader in client/server consulting. In fact, we can deliver end-to-end solutions for all your networking needs, from global to desktop. And because we create networks using pre-patterned, pre-proven architectural modules, their functionality and reliability are never in doubt.

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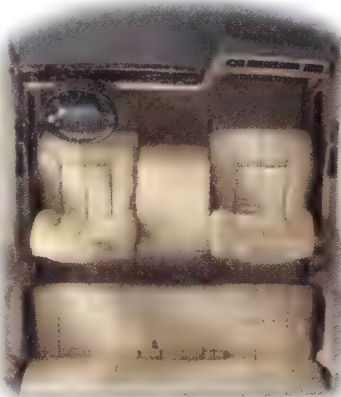
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*J.D. Power and Associates 1995 & 1996 Automotive Performance, Execution, and Layout Studies,SM based on 27,859 ('95) and 25,400 ('96) consumer responses.



America's Truck Stop  The New Dodge

Special Report

ENTERPRISE

Timely Insights for Small Business

Staff and Sense

page 2

Staff and Sense The rise in small business lending, teamwork between companies, new teeth for congressional small biz watchdogs, and more

Electric Circus

page 6



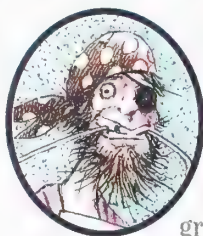
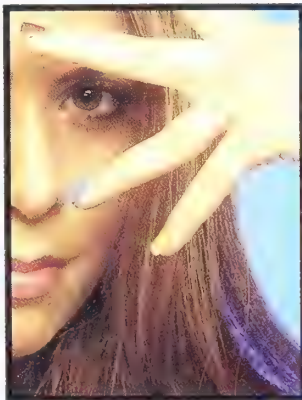
Electric Circus

The utility industry is monkeying around in the face of deregulation. What's not yet clear is how much small businesses will save in exchange for all the confusion

Manicure Overboard

page 8

Manicure Overboard Dinah Mohajer wanted nail polish to match her shoes. Now Hard Candy is the envy of the cosmetics industry for its, like, psychotic sales. But can it turn a fashion statement into a brand name?



Technology

page 14

Drop That Program! Two trade groups are investigating mostly small

and medium-sized companies for software piracy
The Up and Up There are more benefits to staying legal than just staying out of the paper, and it's not as arduous or costly as you might imagine

Roundtable

page 18

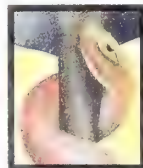
Standing the Heat PointCast launched its Internet broadcasting service last year and already has over a million regular users. CEO Chris Hassett talks about managing hot growth

At Your Service

page 20

Insure Thing

A new law lets individuals and small companies buy catastrophic, high-deductible health policies in conjunction with medical savings accounts. For the self-employed, it amounts to a giant tax break



IN BOX

EDITED BY
EDITH
UPDIKE

CRIMEBUSTERS

You might not fall for EASY MONEY!! ACT NOW!!, but there are plenty of slicker cons. Knowledge is your best defense against them.

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ON NEW PRODUCT R&D

NUMBER OF PRODUCTS
DEVELOPED '94-'96

PROJECTED PERCENT OF SALES
FROM NEW PRODUCTS IN '97

1996 SALES GROWTH

SALES PER EMPLOYEE

FIGURES REPRESENT AVERAGES OF 419 RESPONSES
LATA COOPERS & LYBRAND TRENDSETTER BAROMETER JAN '97



PARTNERING PAYS OFF

Coopers & Lybrand's survey of 419 fast-growing companies suggests that partnering is profitable. In the past three years, 56% of the surveyed companies teamed up with another firm, typically six times. On average, they not only grew faster but also were larger, richer, and more productive. Partnering is most frequent in the service sector, especially among computer, media-related, and consulting companies. The most common ways that companies team up are for research (43%), licensing (28%), and sharing employees (17%).

A WISE POLICY

Wrongful termination. Discrimination. Employees are litigious, and small business is more vulnerable than ever. Now, "employment practices liability insurance" is affordable even for the smallest business. Last fall, Hanover Insurance Co. and ITT Hartford Group Inc. started offering up to \$100,000 of coverage for as little as \$750 per year, with deductibles in the \$3,000 range. Check with your local agent.

BIG BANKS THINK SMALL The SBA's annual analysis of banks lending more than \$1 billion to small business found loans under \$100,000 to be the fastest-growing segment—up 30%. Other findings: The number of billion-plus

lenders rose by 4, to 27; total small-business lending increased 24%, although continuing consolidation in commercial banking, such as Wells Fargo's acquisitions, pumped up the numbers. For a state-by-state look at all lenders, visit www.sba.gov/advo/stats, or call 703 487-4650.

RANK '96-'95	BANK NAME	TOTAL SMALL BUSINESS LENDING BILLIONS OF DOLLARS	PERCENT CHANGE FROM 1995	PERCENT OF TOTAL DOMESTIC ASSETS
1	KEYCORP	\$3.825	24.73%	5.9%
2	WELLS FARGO	3.355	113.85	2.9
3	NATIONSBANK	3.099	-9.29	1.8
4	BANC ONE	3.020	4.13	3.0
5	FIRST UNION	2.934	20.86	2.2
6	FLEET FINANCIAL GROUP	2.640	72.33	3.0
7	NORWEST	2.632	18.44	4.1
8	BANKAMERICA	2.175	3.46	1.2
9	BOATMEN'S BANCSHARES	1.833	27.26	4.5
10	NATIONAL CITY	1.793	54.09	3.6

SOURCE: FEDERAL RESERVE BOARD, FEDERAL RESERVE OF ATLANTA, FEDERAL RESERVE OF BOSTON, FEDERAL RESERVE OF NEW YORK, FEDERAL RESERVE OF RICHMOND, FEDERAL RESERVE OF ST. LOUIS, FEDERAL RESERVE OF SAN FRANCISCO, FEDERAL RESERVE OF SEATTLE, FEDERAL RESERVE OF WASHINGTON, FEDERAL RESERVE OF PHILADELPHIA, FEDERAL RESERVE OF CINCINNATI, FEDERAL RESERVE OF KANSAS CITY, FEDERAL RESERVE OF MINNEAPOLIS, FEDERAL RESERVE OF PORTLAND, FEDERAL RESERVE OF SAN ANTONIO, FEDERAL RESERVE OF TAMPA, FEDERAL RESERVE OF VINCENNA

CAN'T TALK. GOTTA



Are small-business owners as litigious as they think? In search of answers, the Entrepreneurial Research Consortium (ERC) by Babson surveyed 1,500

households at random to assess small-business ownership. Those

HALF OF THE 6 MILLION PEOPLE WHO BOUGHT OR STARTED BUSINESSES

DYNAMIC DUO ON CAPITOL HILL

Congressional small-business committees have been sleepy backwaters in the past, but they'll pack a lot more clout in 1997 thanks to new authority won last year.

Both will showcase Missouri lawmakers. Senator Christopher "Kit" Bond (R-Mo.) stays on as Senate Small Business Committee chair, while Representative James M. Talent (R-Mo.) takes over the House counterpart.

Small-business leaders are elated: "They are going to be a terrific team," says Karen Kerrigan, president of the 45,000-member lobbying group Small Business Survival Committee.

Both intend to use the 1996 Small Business Regulatory Enforcement Fairness Act to turn their panels into snarling watchdogs over federal agencies. The law allows Congress to block regulators if they don't take into account the impact of new rules on small business.

"We'll step up oversight," says Talent.

Bond will push a tax package to help the self-employed—making health insurance premiums fully deductible, easing restrictions on the home-office deduction, and tweaking the definition of independent contractor

to extend new tax benefits to contractees. "Small business is getting hammered by the tax code," Bond laments. Talent will try to reduce the estate tax, which can force the sale of a family business.

The duo faces a fight. Regulators won't appreciate GOP lawmakers' meddling. And even in GOP ranks, budget hawks may balk at trimming estate or home-based business taxes. But with a power team at the helm, it won't be small business as usual.

Both will showcase Missouri lawmakers. Senator Christopher "Kit" Bond (R-Mo.) stays on as Senate Small Business Committee chair, while Representative James M. Talent (R-Mo.) takes over the House counterpart.



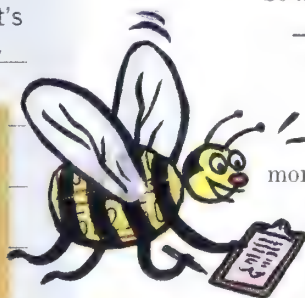
JAMES TALENT (R-Mo.)

- Ex-labor lawyer on management side, elected to Congress in 1992
- Pushed bill to allow management-organized "workers circles" in non-union shops
- Introduced bill for tax and reg relief to spur development in low-income areas
- Got IRS to waive required electronic filing for business for 1996

SO THEY SAY

"Ben said, 'There's this company, Ernst & Young, that could help.' I was like, 'O.K.' So we called 411."

—Dinah Mohajer, founder of Hard Candy, a Beverly Hills (Calif.) cosmetics company, on how the firm found its CEO (page ENT 14).



more than four tries. The study revealed at least 26% of households have a member either starting or own-

ing a business. In the past, experts had pegged that number closer to 15%. In all, 37% had some direct small-business experience. ERC, a group of 27 universities and small-business organizations, plans an 18-month study tracking 2,000 startups, if it can get the funding.



THE SIGNAL? VERY BUSY

Harder it is to find someone, the greater the chance it's home of an entrepreneur.



ENTREPRENEURIAL RESEARCH CONSORTIUM

led to be called back most often ete a five-minute interview—as 24 times—are the most likely to neone involved in small business. mmercial surveys don't make

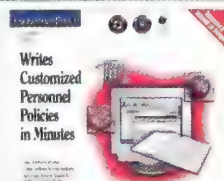
WERE UNDER THE AGE OF 35, SAYS A WELLS FARGO/NFIB STUDY.



CHRISTOPHER "KIT" BOND (R-Mo.)

- Ex-governor, elected Senator in 1986
- Authored 1996 Small Business Regulatory Enforcement Fairness Act
- Played major role in increasing health-care deductions for self-employed
- Carved out small-business exemption in Family Medical Leave Act

TIP SHEET



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HIGH-VOLTAGE CHAOS

The new marketplace in utilities may bedevil small business

Dr. Gerald Kline has seen the future of electricity deregulation, and he's not impressed. Orange & Rockland Utilities Inc. recruited the Middletown (N.Y.) dentist to participate in an experiment under which more than 400 customers buy electricity from a company other than O&R. Kline called several of the 22 companies on the list he was given—including some as far away as California—only to find that many had dropped out of the test. He eventually settled on one from nearby Goshen, N.Y. Kline says his savings will be "maybe a couple of bucks a month, not even worth my time. But if they're monkeying around, I might as well see what's going on."

"Monkeying around" seems a fair description of what the industry is doing at a time when shopping for utilities still seems remote to most people. But market forces and new regulations are bringing rapid change to the \$210 billion industry. California will begin the transition to full retail competition next year; within five years, millions of small-business owners around the country will face choices similar to Kline's—and not just in short-term experiments. It's not too soon to think about what's in store.

For small business, customer choice in electricity is going to feel a lot like



DEREGULATION

customer choice in long-distance telephone service. There will be dozens of sales calls, a proliferation of pricing plans, and perhaps multiple bills. To gain leverage, small businesses will begin to assemble themselves—or be assembled—into large buying groups that can demand favorable prices. Sorting out sales pitches from various "aggregators" promises to be a major headache.

What's not yet clear is how much small businesses will save in exchange for all the confusion. Scott Spiewak, vice-president and general counsel of CPM Energy Inc., an electricity and natural-gas retailer in Eatontown, N.J., says

that in a fully open market, electric rates for small business could fall much as 20% in states with low-cost power now, and up to 60% in states with high-cost power.

A price drop that dramatic would likely drive some utilities with high rates into bankruptcy. So those utilities are battling in state legislatures for the right to levy a fee on customers that start buying electricity from another supplier. The fee would be in the form of a surcharge for carrying electricity to the consumer from the alternate supplier. That surcharge would help pay for the utility's "stranded assets"—mainly, inefficient, outmoded generating plants that can-

ive in a competitive era. Led by California, states are giving utilities some most of what they're asking for. regulators decide to protect utility savings for small business could be it. Prices could even rise in parts of country where rates are already low, as the Pacific Northwest, says Jon Kenyos, managing director of Texas Perspectives Inc., an Austin consulting. The savings of 10% and more reeded by some customers in early tests New Hampshire, Massachusetts, and where will shrink suppliers stop ing and start fong on their botlines, says MarA. Lauterbach, cutive vice-pres-t of National Utility Service Inc. in Ridge, N.J., which handles the utility needs of large companies.

BLE BILL. Since all electricity is pretmuch alike, sellers will struggle mightto make themselves stand out from crowd. In January, PacifiCorp of Portland, Ore., and KN Energy Inc. of Lakeland, Colo., announced a joint venture to customers buy electricity, natural gas, phone, Internet, satellite TV, and other services on one bill. Sellers of electricity will come in all vases. One, of course, will be the local

their carrying charge as a line item on some supplier's bill. "We want to have that customer contact," says Steven L. Kline, vice-president for regulation at giant Pacific Gas & Electric Co.

Small businesses are often the most lucrative customers for utilities, says Philip Giudice, a vice-president at Mercer Management Consulting Inc. in Lexington, Mass. Residential customers get subsidized, while big customers increasingly manage to get huge discounts off posted

distance and natural gas, ranges from sterling to fly-by-night. It's best to ask for references, though they may be hard to come by with deregulation just beginning. "Once the market is normalized, it's not going to be hard to buy power. Right now, though, it's complicated," says CPM Energy's Spiewak.

In the best position to bargain will be small businesses that are able to shift their power consumption to off-peak hours—say, by running certain equip-

CRUCIAL QUESTION: In a power failure, can a utility give priority to its customers, vs. those that lease its transmission lines?

rates by threatening to take their business elsewhere. Realizing that, small-business groups are trying to be heard in Washington and state capitals. "In general our people like deregulation because ultimately, it delivers better service at lower cost," says William C. Dunkelberg, chief economist of the National Federation of Independent Business. "But the issue is how to handle the transition so it's not unduly burdensome for small business and others who don't have negotiating power."

Be prepared for a deluge of offers

ment only at night. For a machine shop, the drop in electricity rates overnight might be great enough to justify moving some work to a night shift. Aggregators will be on the prowl for such time-shifting opportunities. Make sure that you, not they, capture most of the savings from having a so-called balanced load.

Deregulation is so new regulators haven't resolved some big questions. Can a utility cut off a customer if someone else—the aggregator or power supplier—fails to meet its obligations? In a power failure, can a utility give faster service to a customer that buys power from it, vs. one that just uses its wires for transmission?

"We're in areas that are brand new for the industry," says Mercer's Giudice. The Consumer Energy Council of America Research Foundation, a lobbying group, wants a new form created that would make electricity sellers spell out prices,

WHO'S FIGHTING TO SELL YOU ELECTRICITY

For small businesses, the headaches from power deregulation may be bigger than the savings. The best bet is to seek strength in numbers by joining some kind of buying club.

OUR GOOD OLD UTILITY

nobody's forcing you to switch. You can keep buying electricity from your regular power company and natural gas from your gas company. Their prices will often be the cheapest.

EXAMPLES: Pacific Gas & Electric; Consolidated Edison

AGGREGATORS/BROKERS

You'll hear lots of pitches from these folks, who bring hundreds of small buyers into one organization for leverage with suppliers. Some handle billing; others simply make a contract and step aside.

EXAMPLES: National Utility Service; CPM Energy

POWER MARKETERS

Today, these players mainly buy electricity or natural gas from one utility and sell it to another. But they're beginning to get into the retail business, sometimes in cooperation with aggregators.

EXAMPLES: Enron; Duke/Louis Dreyfus

ty that owns the wires over which electricity travels. But customers can use to get power from another nearby ty with lower prices. They can even from a company that doesn't generate a milliwatt of power but buys it on growing wholesale market and res it to homes and businesses.

f you do choose to get electricity from neone other than the local utility, you y get two bills: one from the power plier and one from your local utility, ch will charge a regulated fee for dering to you over its lines. Most utility want to sell new services, such as eny management, so they don't want to e touch with customers by burying

from aggregators to join a buyers' group. Some will step aside after assembling a group of small customers and delivering the list to a seller of electricity. Others will still serve as intermediaries, billing and collecting from customers, then passing the proceeds along to the energy supplier in a monthly lump sum.

Trade groups are exploring how to pool their members' electricity usage. Other aggregators will put together customers that already belong to a buyers' group for, say, natural gas or long distance. Some aggregators will shop around for sources, while others will represent a particular seller. The reliability of aggregators in other industries, such as long

obligations, and conditions of service in a standardized, comparable way. Says Vice-President Jamie Wimberly: "Some people will oppose this because it adds cost to what they're doing. I think it's the price of admission, really."

Incumbents could benefit from the chaos if cautious customers decide to keep doing business with them the old way, just as many people overspend by sticking with AT&T's full-fare long-distance rates. But in electricity, as with long distance, a little judicious testing could pay off. Says consultant Hockenyo: "Beware of 'this is easy' promises. Read the details. Pay attention." And shop around.

By Peter Coy in New York



SUCH POLISH FOR ONE SO YOUNG

How Dinah Mohajer became the Estée Lauder for Gen-X

Dinah Mohajer never meant to start a fashion empire. She just wanted some pale-blue nail polish to match her platform sandals. So the University of Southern California pre-med student decided to mix the stuff herself. Then, while sporting her jazzed-up toes around campus, "eleven girls stopped me in one day and said, 'Oh my God, that is so cute!'" recalls Dinah. "So my sister was like, 'Are you retarded? You could make money at this.'"

She may talk like a ditzy Valley Girl, but Mohajer, 24, is anything but. At near-meltdown pace, she and her "symphonic grunge" musician boyfriend, Ben Einstein, also 24, have created Hard Candy, a 21-month-old cosmetics company with sales projected at \$20 million by yearend. With everyone from

Alicia Silverstone to Dennis Rodman wearing its products, tiny Hard Candy is the envy of the industry, where the likes of Revlon Inc. and Estée Lauder Cos. spend millions each year on market research and advertising alone.

Now, says Mohajer, "we're going to expand Hard Candy into a cutting-edge cosmetics company with staying power for the long haul." With a new line of lipstick and a nail polish for men already on the market, Hard Candy is looking to branch out into everything from licensing deals with clothing companies to launching its own movie production unit.

No one seems more surprised by her success than Mohajer, who conjured up her nail polish career as nothing more than a summer lark. "I was just totally freaked out and psychotic from study-

MOHAJER: "We're going to expand in a cutting-edge cosmetics company"

ing," she says. "I figured it was my last summer before being chained into medical studies." The way things are going, she says, she may well stay unshackled.

One day in May, 1995, just after her big hit on campus, Dinah and her sister Pooneh, went to the mall to shop, lunch and brainstorm. Over salads and mineral water, they came up with the name Hard Candy, which Pooneh, then a 21-year-old entertainment industry lawyer, got Dinah to trademark at once. Dinah decided to start with four pastel colors.

Back at Dinah and Ben's West Hollywood bungalow, the couple sat around thinking up cool names. Pale blue would

ENTREPRENEURS

be called Sky, green would be Mint. Eventually, they came up with some 60 shades with names like Trailer Trash, Gold Digger, Jailbait, Porno, Scorn, and Man. Pooneh made a \$3,200 loan; \$50,000 came from Mom and Dad in Michigan.

Dinah and Ben started with tiny bottles of white nail polish mixed with darker colors already on the market. When they had four bottles ready, the pair brought them into Fred Segal, a Santa Monica clothing store frequented by celebrities and other hip dress-

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SEP034688

sers. "This little 16-year-old girl saw the bottles and just had to have them all," says Ben. "It was crazy." The store manager immediately priced the bottles at \$18 each. An elite brand was born.

Fred Segal ordered 200 more bottles on the spot. Ben also shopped around a few boxes of finished polish to the trendier local boutiques. When such Hollywood celebs as Drew Barrymore, Cher, Boy George, and Quentin Tarantino started showing up in the entertainment press wearing Hard Candy, orders poured in. Then, one night in July, *Clueless*' Alicia Silverstone appeared on *The Late Show* with David Letterman. He asked about her Sky-blue nails. She gushed. It was a moment marketing executives wait a lifetime for.

"PSYCHO SLAVES." A month later, *Seventeen* ran an item on Hard Candy, including Dinah and Ben's phone number. The ringing started at 4 a.m. and went until 2 the next morning. Putting in five extra lines just made matters worse: "We were running around like psycho slaves."

Day and night, Ben and Dinah mixed chemicals, then squeezed the finished polish from plastic ketchup dispensers into little glass bottles. "After five hours it was, like, I feel so sick," says Ben. Adds Dinah: "We were definitely inhaling some hard-core vapors."

As volume picked up, Dinah and Ben tried to buy bottles and chemicals in bulk and have orders filled by pros. That's when the couple got a jolt of reality. They could buy base in five-gallon jugs from a wholesaler, but no one in the beauty supply business would "lead us past the retail wall," says Ben. Finally, a local bottler agreed to handle the work between bigger jobs. They moved front-office operations to an 800-square-foot office in Beverly Hills. "We really wanted the 90210 zip code," says Ben.

Stories ran in *Vogue*, *Sassy*, *Allure*, and *Elle*. Nordstrom and Neiman Marcus were clamoring to carry the product. Hard Candy "just caught on like wildfire," says John Stabenau, divisional merchandising manager for Neiman Marcus.

But while their products were gaining popularity, Di-

nah and Ben were "totally losing our hair," says Ben—and running out of cash. With no billing system in place, the two had assumed their 30 or so customers would pay as shipments arrived. They didn't. Meanwhile, a squadron of about 50 helpers, mostly friends and hangers-on, were coming and going at a dizzying rate. On their way out, ex-employees were helping themselves to nail



David Letterman asked Alicia Silverstone about her blue nails. She gushed. It was a moment that marketing execs wait a lifetime for

polish, computers, even furniture.

The biggest crisis came in February, 1996, when Hard Candy's bottler fell weeks behind schedule—just as a new brand appeared in local stores called Crazy Candy, with colors amazingly similar to Hard Candy's. Suspecting the bottler was knocking off Hard Candy, a lawyer friend of Ben's and a local sheriff showed up and ordered the company to hand over its remaining supplies.

By then, Dinah had checked into a hospital, suffering from dehydration and exhaustion, and she and Ben realized they were out of their league. "I was, like, dead," says Dinah. "Ben said there's this company, Ernst & Young,

that could help. I was like, O.K. So we called 411."

In March, 1996, the management consulting firm delivered Hard Candy's prior: Bill Botts, a 61-year-old former Rockwell International Corp. executive with a smattering of cosmetics experience. Calm and fatherly, Botts put out functional charts while wide-eyed Hard Candy staffers sat around him

the floor. He explained some foreign concepts as cash flow, invoicing, production, and distribution. "It was like a light going on," says Dinah.

Botts, though, wasn't sure he wanted to join a brat pack. He had started and sold several high-tech companies, including Vertex Design Systems Inc., now a unit of software company Autodesk in Sausalito, Calif. The last thing he needed was "the kids running around stumbling over each other."

But Mohajer's enthusiasm and the prospects of a large

score won Botts over. First, he drew up an organizational plan. Dinah would retain creative control and major ownership. Botts would be CEO, with a minority stake. Ben and Pooneh, who had joined Hard Candy full-time, would also get healthy equity stakes. Botts then hired a finance officer, product chief, and director of marketing. He used his contacts to set up a network of sales reps to sell to customers including Neiman Marcus, Nordstrom, Macy's, Bloomingdale's, as well as Harrod's, London and stores in Europe, Japan, Taiwan, and New Zealand.

Despite its solid structure, Hard Candy could sizzle away as fast as it heat-

up. "Fashion is quixotic," says Allan Mottus, editor of *The Informationist*, a cosmetics trade magazine. "Turning a fashion statement into a brand name is a whole other thing."

But for now, business is booming. Everyone from Estée Lauder to funky Urban Decay has come out with Hard Candy imitators. Revlon just launched a knock-off line called StreetWear.

Dinah exudes confidence. "We've got a great team that's ready to play the game and win," she says. Spoken like a tycoon. Totally not retarded.

By Eric Schine in Beverly Hills, Calif.

DINAH MOHAJER

BORN Sept. 2, 1972

HOMETOWN Bloomfield Hills, Mich.

FATHER Reza, gynecologist

MOTHER Shahnaz, office manager

FAVORITE COLOR Puke green

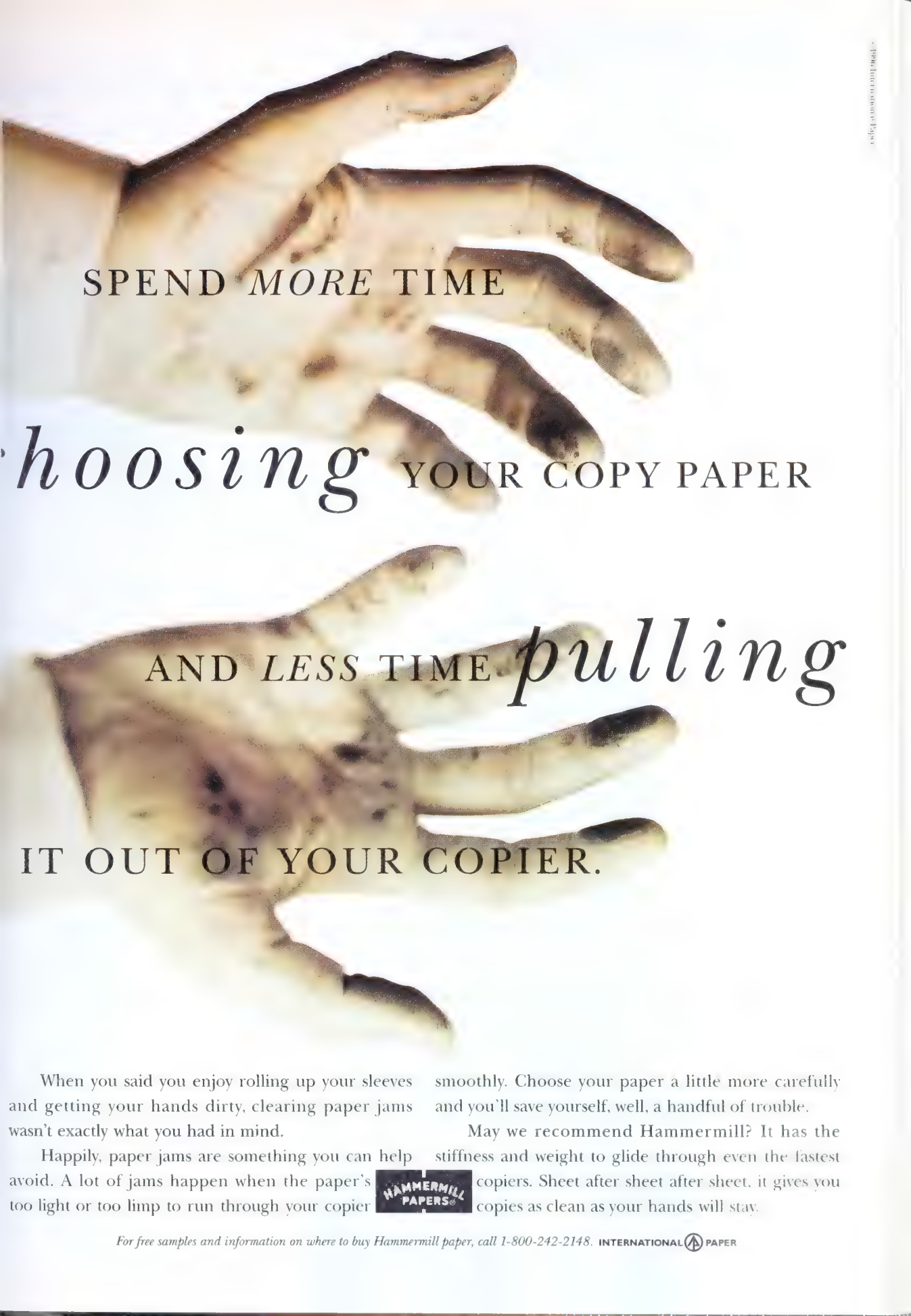
FAVORITE HARD CANDY COLOR Trailer Trash



FAVORITE ROCK BANDS Prodigy, Garbage, Jamiroquai

FAVORITE QUOTE "Don't stop until you get enough" (Michael Jackson)

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Behind Ron Sieman's success in helping to grow Royal Caribbean's fleet



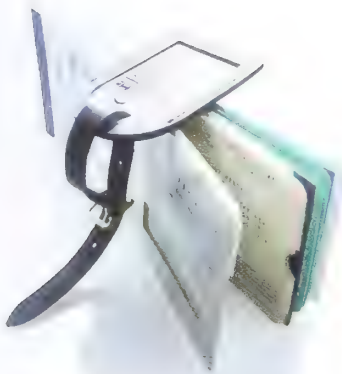
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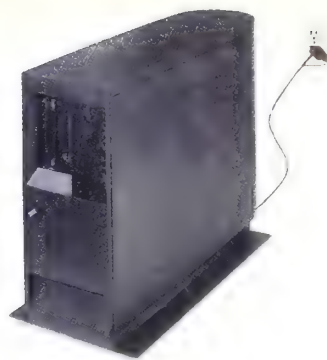
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Upgrading his AS/400 to PowerPC
technology increased the
performance of customer reservations
by 50% with almost no downtime.

From 50 applications (primarily, travel reservations) become over fifty. As this aggressive expansion takes place at Royal Caribbean's Home Streaming, U.P., IT, upgrades AS/400 Advanced Series could be expected with time.

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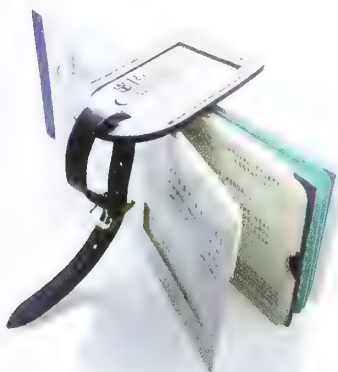
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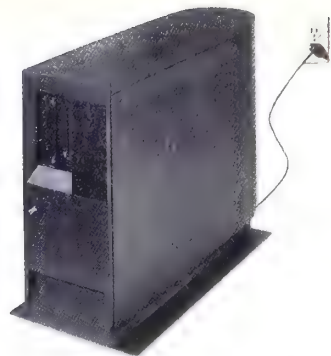
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Behind Ron Sieman's
success in helping to grow
Royal Caribbean's fleet





and give 30,000
travel agents quick access to
their reservations database.



Upgrading his AS/400 to PowerPC™
technology increased the
performance of customer reservations
by 50% with almost no downtime.

*Four ships become fourteen. Four itineraries
become over fifty. As this aggressive expansion
takes place at Royal Caribbean, Ron
Sieman, J.P. IT, watches AS/400 Advanced
Series easily expand with them.*

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FREEZE! THIS IS A SOFTWARE RAID

These days, even unwitting pirates are subject to big fines



Robert L. Goldsmith couldn't have been more shocked. One day last June, U.S. marshals appeared at the door of CeraMem Corp. in Waltham, Mass., and announced that the \$1 million environmental-research firm was under suspicion of pirating software. Armed with a court order, investigators from the Washington trade group Business Software Alliance kicked employees off their computers. Then, with U.S. marshals at their sides, they rummaged through the machines in search of stolen goods, using a program that compiles information on installed software. "The BSA marched in here with storm troopers," CeraMem President Goldsmith indignantly says of the group, whose sole mission is enforcing copyright law for major business-software producers.

It's unlikely software cops will kick down your door anytime soon. Over the past year, the BSA's U.S. enforcement actions have numbered just 550, and less than 10% of those involved actual raids. Most often, suspects get letters urging voluntary compliance. But casual software pirates of the everybody-

REVENGE PLAY: Billboards are popping up that offer a hot line and urge passersby to "Nail Your Boss"

does-it school may want to think twice. First, there are real benefits to going legal (page 16). And second, whatever the risks, the consequences of getting caught are, to say the least, unpleasant.

What can happen to captured pirates? Under federal law, if you distribute copies to your colleagues of, say, Microsoft Word, you can face civil fines of up to \$100,000. Settlements of BSA lawsuits have run from \$40,000 to \$500,000.

In addition, illegal software must be destroyed and replaced at current retail prices, which can be a huge expense. And you'll have to endure humiliating publicity when the BSA or another Washington-based trade group, the Software Publishers Assn., makes an example out of you. "We've made front-page news in the

business sections of the *L.A. Times*, the *Chicago Tribune* and the *Cleveland Plain Dealer*," boasts Bob Kruger, the BSA's vice-president for enforcement.

In recent months, the BSA has experimented with a new tack in its piracy campaign. Billboards in key locations in Manhattan, aimed at Wall Street workers and ad agency employees, urge passersby to "Nail Your Boss" by calling a BSA hot line and anonymously reporting suspicions of illegal copying. In most BSA investigations begin with

NASTY SURPRISE. "We rely heavily on the kindness of strangers," says Kruger. That's a bit ironic, considering the BSA's clout. The group consists of nine members: Adobe, Apple Computer, Autodesk, Borland Systems, Lotus Development Corp., Microsoft, Novell, The Santa Clara Operation, and Symantec. Together they sell 75% of the country's business software. The BSA promotes its 800 number on radio, in magazines and on software boxes. Vendors also forward tips they solicit. Microsoft, for instance, takes reports at 1-800-388-LEGIT and piracy@microsoft.com. The result: 36,000 calls in four years. During the same time—while the staff grew from 4 to 30—the group took legal action against 1,500 companies and received nearly \$19 million in settlements, all of it used to finance further enforcement. Suits are filed in fewer than 100

of cases. Actions usually are settled.

Today, the BSA and the SPA are just going after huge corporations—they're after you. "The great majority of the companies that we investigate and pursue fall into the category of small and medium-sized businesses, maybe as high as 90%," says Kruger. Their key problem, says the SPA's Peter Beruk, director of domestic anti-piracy, is the failure to monitor and enforce anticopying policies.

Although the BSA paints pirates as thieves, much of the crime is unintentional. Many smaller companies don't employ software managers, and software licenses are notoriously complicated, causing confusion about legality. Often, executives don't know that their employees have copied software. That

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FK96

HOW TO AVOID WALKING THE PLANK

the case at CeraMem, says Goldsmith.

CeraMem had no one responsible for managing software. "People would bring in and load programs they had, and we just didn't control it," Goldsmith says. A disgruntled former employee called the BSA's hot line and turned in CeraMem.

The BSA brought suit against the 12-person company and a sister manufacturing firm, CeraMem Separations Inc., also in Waltham, and got a court order for the raid. Auditors found renegade copies of Autodesk, Lotus, Microsoft, and Novell programs. Facing what Goldsmith says the BSA called "a potential million-dollar liability," CeraMem settled for \$48,000 last September.

"They have a small company over a barrel," complains Goldsmith. "You can't afford to fight it." It's true no BSA lawsuit has ever gone to trial, but Kruger says that's because copyright cases are open-and-shut. "Was there infringement? There's not a lot a company can do to make that go away," he says.

FRAMED? Critics of the trade groups' tactics question their reliance on "snitches" with an ax to grind. Bob Snyders, president of Thermal Equipment Corp., a Torrance (Calif.) manufacturer that was also sued and raided by the BSA, says that an unhappy employee deliberately distributed two dozen illegal copies of programs before leaving the firm, fully intending to call in the BSA. "I find that abhorrent and totally contrary to fair dealings with people," he says.

Kruger responds that the BSA doesn't bother with frivolous cases and says targeted companies often attack the tipster's reputation. Beyond that, BSA won't discuss details of a settled case. Thermal Equipment and sister company, Baron Blakeslee Inc. in Long Beach, Calif., settled for \$85,000 in November.

Both the BSA and the SPA say high fees, raids, and humiliating actions are warranted as a deterrent. Software piracy is rampant, representing 26% of all software in use in the U.S. and causing domestic losses of \$2.9 billion in 1995, according to the BSA. Worldwide that year, piracy losses totaled \$15.2 billion.

But executives of raided companies feel strong-arm tactics are cruel and unusual punishment. "If the BSA had come to us under its voluntary compliance program, we would have complied," says Goldsmith. "Basically, we got hammered by the BSA and it really wasn't necessary." The software police, however, want you to know that it's always possible.

*By Elaine L. Appleton in
Newburyport, Mass.*

Staying legal takes some work, but it's not as hard or expensive as you might think. And there are concrete benefits as well, such as the ability to get technical support, documentation, and notification of upgrades. Most publishers offer existing customers discounts on new versions, so you can keep software up-to-date economically. On the flip side, unlicensed software can cause problems even if you're not audited. Crash your network with a pirated version of WordPerfect, and there's no one to call for help. And if you download illegal software from the Internet, you risk scooping up a virus.

So what exactly does "legal" mean? If you're buying software one copy at a time, you need a license for each program running on a computer. For software running on a network or several computers, you need a network or multiple-copy license. And, conventional wisdom

notwithstanding, it's illegal to copy *Myst* from your kid's computer and load it onto your office PC. For more on copyright law, log on to the Software Publishers Assn. (<http://www.spa.org>) or Business Software Alliance home pages (<http://www.bsa.org>), or check out Microsoft Corp.'s Licensing & Software Management Guide on the company's Web site (<http://www.microsoft.com>).

To make sure your software is legal, do a self-audit by downloading free audit kits published by either the BSA or the SPA. These programs scan hard drives and network

servers and create spreadsheets of existing software version numbers, dates installed, and assorted details that identify the programs. You then compare this information to your licenses. And don't worry about the audit's scope. If you've got the software, these programs will find it: The SPA's SPAudit tracks 4,400 titles.

POINT PERSON. It's also a good idea to make one person responsible for software management. To bring that person up to speed, SPA offers a one-day, \$395 "Certified Software Manager" seminar. Topics include how to conduct self-audits and differences in licensing agreements.

Another step is writing—and enforcing—a software policy that bars copying. Most managers already tell workers not to copy software, but they don't follow up—sometimes, until it's too late.

What if you're terminally disorganized and don't want to track soft-

ware yourself? If you buy through a third-party reseller, such as ASAP Software Express, it'll do it for you, keeping a list of your software, purchase dates, version numbers, price, and the kind of license (single-user, site-license, and so forth).

Sure, resellers shave dollars off the list price and offer useful combinations of licensing options and upgrades. But perhaps their biggest benefit is standing by you in times of trouble, with proper paperwork in hand. Then, if you're accused of piracy, you can bring out the guns rather than run up a white flag.

By Elaine L. Appleton



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BREAKNECK GROWTH WITHOUT A SCRATCH

PointCast's Chris Hassett on how to run a Net pacesetter

In just four short years, PointCast Inc. has gone from being an anonymous startup to a red-hot Internet media company, flush with \$48 million from outside investors. Behind its success is the insight that most people would rather have information "pushed" onto their screen from the Internet than have to spend hours finding it themselves. Since PointCast launched its Internet broadcasting service last year, more than one million viewers have come to use it regularly. The company's 34-year-old CEO, Christopher R. Hassett, talked with Assistant Managing Editor Sarah Bartlett about the management issues he has faced since co-founding the company in 1992.

Q: How did PointCast get started?

A: Well, it began with me sitting around at night trying to figure out what I was going to do with some of the personal investments I was trying to make. And fundamentally, it was hard for me to figure out how to get what I wanted out of the online services. So if I, with a technical background, was having difficulty, it was pretty apparent to me that the mass market certainly wasn't going to be engaged in this activity. It just wasn't going to work for people who didn't have a technical background.

So we [my brother and my wife and I] thought, let's make it easy. Let's participate in the invention of this new personalized broadcast medium, and by making it easier, we will open the doors to masses of people and create

a new business opportunity. **HASSETT:** The basic rules are easy to learn. The hard part is sticking to them.

Q: What happened at that point?

A: We incorporated. That's kind of the first thing you do. It costs \$50, and the lawyer visits your company. My brother Greg and I began writing the company's first application. I was in my living room at the time, and Greg was in his house.... I put about \$80,000 into the company in the beginning of '93. By the way, we were not getting paid.... We used the money to fund advertising. In the early days we were trying to build a very lean organization, because you want to test an idea without investing a huge amount of money until you get a sense of what the market will bear.

Q: You've gone from a company with three people to one that has 220 employees. How hard has that been?

A: To grow and build a culture in your company and have a camaraderie and respect level among your employees that allows you to succeed, and at the same time to try to get some work done, and get the product launched, and get the world to understand what you're

g to do—it's an enormously difficult
enge.

*How did you create a PointCast
net?*

There's a set of management tools
have evolved since the beginning of
porate capitalism which can be as
lane and silly-sounding as weekly
meetings, which are so tempting
to do, because you have too many
things to do. But if you don't do
, you lose control. So it starts with
of simple things like that, all the
up to making sure, when we were
ing our staff, that we found people
will communicate our cultural val-
down to their employees. Of
cultural values that I've put
ace, every single one of my
presidents knows them.

What are they?

The first is that everybody's
owner in the company, every-
one's part of the option plan.
The second is, I don't, in any
put up with politics. I don't
to be lobbied. If you get in-
ed with another employee,
all three sit down and talk
t it. So there's just ways
can build an understanding,
we all have to respect each
er, so you don't get into the
won where the friction be-
h groups builds over time
things just break down.

Communication is key. Anybody in
company can have access to me,
any time they want. Admittedly, my
dule is packed. But if they want to
to me, they can. And I want to
that at every level. I don't want a
ed-door policy. We have company
ings. We have rallying events. We
two parties a year: a holiday par-
and a summer picnic where fami-
come.

We really try to build a team, be-
e after all, it's a competitive world
here.

*What are some of the tougher man-
ment issues that you've faced?*

I'll tell you what's really hard, is the
otation not to focus on culture. Be-
e if you just think about all the
gs that you need to do in your day,
tend to prioritize. It's real easy to
down at the bottom of your list the
of amorphous things that are diffi-
to see the results of, like culture. So
t ends up happening is, you start to
them off the list: "We won't have a
pany meeting next week. There's
much going on." So one of the hard-
things is to avoid the temptation to
he wrong thing.

Q: *How do you get around that?*

A: I'm just very disciplined. I won't let
it happen. I don't care what's going on. I
won't deprioritize the organizational tools
that are necessary to keep the company
tied together. And that's hard at times
because we are growing so fast, and we
recognize that we have so much oppor-
tunity in front of us that sometimes you
can't see the forest for the trees.

Q: *How do you delegate?*

A: I have a set of vice-presidents that
basically run the organization.... I don't
like to micromanage at all. If you have
talent at high enough levels, where they
can take an objective and execute on

OPEN DOOR: 'Anybody
in the company can
have access to me, at
any time they want.
Admittedly, my
schedule is packed.
But if they want to
get to me, they can'

it, then you've got the right people
working for you. If you have people
that you have to micromanage and tell
them how to do their job, you don't.

Q: *Did you have to go through several
layers of people in order to find them?*

A: Oh, yes. I recruited each and every
one through a process where, at any
given stage, I interviewed 10 people.
But sometimes I can go through 25.

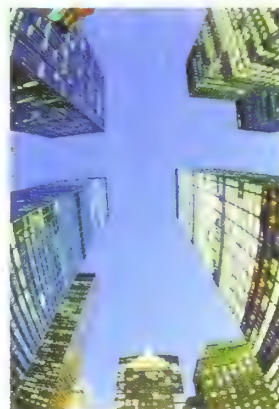
Q: *Do you ever find time to relax?*

A: I ride a motorcycle. And I have got-
ten into race-car driving. I have had no
intention of ever racing competitively,
but it's pretty fun to drive a car at 140
miles an hour, without personally getting
a ticket.

Q: *How about walking at a really slow
pace?*

A: Actually, something I do often, when
I get this involved, is I will take a long
walk and I'll just digest. You talk about
information overload. You're growing
this fast, there's a lot of decisions to be
made all the time. And people are al-
ways needing of your time. And if you
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Medical savings accounts: A big tax break for helping to insure yourself

Last year, Stephen Felder, a self-employed engineering consultant in Lake Alfred, Fla., paid Mutual of Omaha Insurance Co. \$290.49 a month for family health insurance with a \$2,500 per-person deductible. His wife, Victoria, worried that if the family of four ever had a serious car accident, they would pay \$10,000 in deductibles before coverage kicked in. Even then, insurance would pay only 80% of expenses.

Today, Felder enjoys better coverage at a lower cost, under a Golden Rule Insurance Co. policy regulated by the new health insurance reform law. His \$253.73 premium buys 100% coverage, after a total family deductible of \$3,000.

HEALTH INSURANCE

Felder can cover most of the deductible by contributing tax-deductible dollars to a medical savings account. The MSA pays 5% annual tax-free interest, and Felder can withdraw funds to pay for dental work, eyeglasses, or other medical expenses not covered by his policy.

TIME-SENSITIVE. The Health Insurance Portability & Accountability Act, which took effect on Jan. 1, was designed to make health insurance accessible for some of the 42 million who currently do without. For at least a few months, until interim caps kick in, it creates a taxpayer-subsidized opportunity for self-employed people such as Felder and companies with up to 50 employees to buy cheaper coverage.

The legislation authorizes individuals and small companies to buy so-called catastrophic, high-deductible health policies in conjunction with MSAs, which work like individual retirement accounts.

Participants or their employers can deposit up to 65% of an individual's deductible or 75% of a family deductible into the MSA each year.

The new policies and MSAs can mean

HEALTHY RETURN

Unused funds in MSAs can pile up tax-free interest

lower costs for small companies who want to provide their employees with comprehensive insurance. But employers always have been able to deduct the expense of workers' medical insur-



ance, so their savings from MSAs are modest. By contrast, MSAs are "an incredible boon for the self-employed," says Greg Scandlen, who heads Health Benefits Group, an MSA consulting firm. "For the first time, they get a 100% deduction for part of their medical expenses." In 1996, before the MSA, self-employed workers could deduct 30% of health premiums.

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especially attractive to healthy self-employed people who have few actual health expenses. Dr. Niranjn Shah, a self-employed cardiologist in Holmdel, N.J., says his family of four never spends more than \$500 a year on health care. He bought a new high-deductible policy from Blue Cross & Blue Shield of New Jersey and an MSA for the tax benefits. If his family stays in good health, the money he sets aside can accumulate interest tax-free, and—unlike employees' contributions to flexible spending accounts—can be carried over from year to year.

Importantly, the MSA is a pilot project. The law authorized just 750,000 accounts before 2000 and imposed interim caps for earlier years. If the MSAs exceed this year's cap, the Treasury Dept. can bar new employer-sponsored accounts as of Sept. 1 and new self-employed accounts on Oct. 1.

That leaves a "nine-month window this year" to establish an unlimited number of MSAs, notes David Lack, executive director of the Council for Affordable Health Insurance. The financial services industry, true to form, is rising to the opportunity. Some 30 insurers already offer high-deductible health policies and MSAs, and 47 additional firms expect to introduce products by the spring, says Mark Morris, executive vice-president of Eclipse Medi-Save America Corp., an Indianapolis-based consultant (table).

PRICE CHECK. Insurers typically offer either an indemnity product that pays a percentage of each claim, or a preferred provider organization that offers lower costs if policyholders stick to a limited network of doctors and hospitals. Many administer both the insurance policy and the MSA; others affiliate with banks or other institutions that handle the MSA. Blue Cross & Blue Shield of New Jersey, for example, offers MSA Blue, in-

cluding full coverage of preventive care, with an MSA administered by First Union Bank. WellPoint Health Networks has joined with Mellon Bank, which allows MSA funds over \$2,000 to be invested in its Dreyfus mutual funds.

How do you sort through the panoply of offerings? First, check the price. Abundant supply doesn't mean that these policies are always a great deal. In some areas, catastrophic policy pre-

however, limits any individual family member's deductible to \$2,250 in expenses before coverage begins. In addition, consumers should determine which expenditures will be applied to their policies' deductible and out-of-pocket caps. Some insurers apply only regular physician and hospital charges to the deductible, while others also allow dental and vision-related charges, even if such services aren't covered by the policy.

Others allow only a percentage of "usual, customary, and reasonable" expenses to qualify toward the deductible.

Evaluate how out-of-pocket caps are applied in preferred provider organizations. Golden Rule's PPO offers 100% coverage for services from doctors and hospitals in its network and 75% coverage outside. Patients can pay up to \$5,000 in out-of-pocket work coinsurance, plus deductible. By comparison, WellPoint Health Networks hopes to get California regulatory approval to offer 80% coverage in network and none out of network, but its out-of-pocket caps are \$3,000 for individuals and \$5,500 for families, including the deductible.

Figuring out the MSA yourself shouldn't be as complicated. The account should allow easy access to funds to pay current medical bills and also provide a high rate of return on unused assets. A good MSA administrator can track deposits, claims withdrawals, and expenditures. It also can adjudicate and reprice claims, informing account holders if deductibles and out-of-pocket expenses have been met.

The big risk? Expect to worry that some workers won't save enough, especially in the short run, to cover unanticipated expenses.

you do not put enough money into your MSA because you think you're healthy and you get hit with a big claim, you won't have enough money" to pay for notes Kwasha Lipton health consultant Howard Tarre. The government's goal for small business and the self-employed can be a godsend—but only if people actually act on it.

By Phoebe Eliopoulos in Washington

NEW YEAR'S REVOLUTION

As of Jan. 1, Congress authorized a new class of high-deductible health insurance specifically for the self-employed and workers at small companies. Already, dozens of insurers have begun offering such policies. These products, linked to medical savings accounts administered by the insurer or an associated bank, all have a \$1,500 individual and \$3,000 family annual deductible.

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GOLDEN RULE INSURANCE Dallas	100%	\$1,500/ \$3,000	\$2 million	\$87/ \$203
HUMANA Texas	100%	\$1,500/ \$3,000	\$5 million	\$100/ \$286

PREFERRED PROVIDER ORGANIZATIONS

	COVERAGE* IN/OUT OF NETWORK	OUT-OF-POCKET MAXIMUM SINGLE/FAMILY	LIFETIME MAXIMUM BENEFIT	MONTHLY PREMIUM** SINGLE/FAMILY
BLUE CROSS & BLUE SHIELD OF NEW JERSEY	100%/80%	\$2,750/ \$5,500	Unlimited	\$154/ \$421
GOLDEN RULE INSURANCE Dallas	100%/75%	\$5,000/ \$5,000 per person	\$2 million	\$72/ \$167
WELLPOINT HEALTH NETWORKS San Francisco	80%/0%	\$3,000/ \$5,500	\$5 million	\$67/ \$161
HUMANA Texas	90%/ 70%	\$2,000/\$4,000 \$3,000/\$5,500	\$5 million	\$84/ \$232

*Percentage of claims paid, after deductible. **Monthly premium for 35-year-old nonsmoking male in specified state or city.

miums for individual coverage aren't much cheaper than a good managed-care plan. "And don't hesitate to ask for new price quotes every quarter," suggests Morris.

Pay close attention, too, to how the policy's deductible is applied. Golden Rule's \$4,500 family deductible applies even if just one individual requires care. Mutual of Omaha's \$4,500 deductible,

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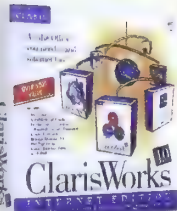
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AN ECONOMIST WHO EXPLAINS IT ALL

As CEA Chair Yellen has a knack for demystifying data

When Janet L. Yellen was a graduate student in economics at Yale University, classmates quickly figured out that the way to decipher Professor James Mankiw's lectures was to borrow her notes. And long after Yellen received her PhD in 1971, the Yellen Notes—as

economist husband, George A. Akerlof, a former CEA staffer who is widely perceived as a future Nobel laureate.

In academic circles, Yellen and Akerlof—who met in 1977 as young Fed economists and were married the next year—have won acclaim for the originality of their research, to say nothing

Berkeley, they conducted groundbreaking research that refuted prevailing wisdom about how the economy functions (table). In the 1970s, economists such as Robert E. Lucas Jr. of the University of Chicago had argued that using monetary and fiscal policy to move the economy was futile, since people adjust their behavior in ways that negate the policy changes. This “rational expectations” theory gained widespread acceptance at the expense of the Keynesian school, which held that the government could act to smooth out business cycles.

But in a landmark 1985 paper, Yellen and Akerlof argued that individuals lacked the time and resources to conduct the intensive research. Such a deviation from Lucas' assumptions, when magnified, might mean that an interest-rate cut could have a major impact on the economy. Former Fed Vice-Chair-

BRAINSTORMING IS A FAMILY AFFAIR

MONETARY POLICY: In the 1970s, Nobel winner Robert Lucas argued that anticipated changes in monetary policy could not affect unemployment because they are already discounted. But Yellen's and Akerlof's 1985 paper, a cornerstone of modern economics, showed that policy can be effective as long as prices and wages are somewhat sticky.

UNEMPLOYMENT: In a free market, wages should adjust to eliminate unemployment. Yellen and Akerlof argued in 1990 that fairness considerations can prevent companies from cutting wages enough to employ all workers.

Yellen became known—served as an unofficial textbook for generations of graduate students. “She is a genius for expressing complicated arguments simply and clearly,” says Nobel winner Tobin. Yellen's talent for penetrating arcane issues has served her well—as an economics professor at the University of California at Berkeley and as a Federal Reserve Board governor. Now, those synthesizing skills will be tested in her next assignment yet: chair of the White House Council of Economic Advisors. And Yellen brings another resource to the job as well, her Berkeley



DYNAMIC DUO: Yellen makes sure Akerlof's ideas will fly

of their clout. “It will be a very powerful wife-husband team,” predicts David Vogel, a professor at Berkeley's Haas School of Business. Such colleagues say Akerlof often comes up with breakthrough ideas, but it is Yellen who supplies the academic rigor. Akerlof “is more interested in the inspiration than the hard work of putting it together in a professionally plausible form—he's off to the next idea,” says Tobin. “She provides the discipline that makes them go.”

The couple has been collaborating professionally for more than a decade. At

ADVERSE SELECTION:

Akerlof originated the modern theory of how markets fail when buyers and sellers do not have the same information. For example, people who know they are ill tend to take out more medical and life insurance, raising the rates higher than they should be.

ZERO INFLATION: Last year, Akerlof, with William Dickens and George Perry of the Brookings Institution, argued that cutting inflation to zero can actually raise unemployment. They suggest that a low but moderate inflation rate brings the best results in terms of output and employment.

man Alan S. Blinder says the couple's research “has given theoretical economic underpinnings to the New Keynesian school,” which explains why government intervention in the economy is sometimes justified.

RELUCTANT AT FIRST. Yellen, who was sworn in to the CEA job on Feb. 13, has quietly emerged as a forceful figure on her own. As a Fed governor since 1994, she helped convince fellow governors that downsizing and foreign outsourcing was enabling the economy to run with lower unemployment and less inflation than was thought possible. Last fall, Yellen and Fed Chairman Alan

Greenspan joined in arguing that the strong economy wouldn't trigger an inflationary spike—a call that appears shrewd today. “Janet pushed for more conceptual analysis within the Fed,” says one central bank colleague. “She wanted the Fed to ask less ‘What’s the Chicago Purchasing Managers Index?’ and more ‘What are the broader forces affecting the economy?’”

In choosing Yellen to succeed Joseph E. Stiglitz, who is leaving to become the World Bank's chief economist, Administration officials passed over others with greater marquee value. But Treasury Secretary Robert E. Rubin says the White House talked Yellen into the job because “we wanted someone who could bring a rigorous analytic approach to the issues and who could work well with others.” So great was the Clintonites' respect for her thinking that while at the Fed, Yellen periodically briefed CEA officials on such topics as the labor markets and welfare reform. Moreover, in the Clinton Administration, loyalty has been a big requisite for the job: CEA chairs have been expected to sell policies, even if they disagreed, or at least remain silent.

BATTLES AHEAD. For now, Yellen says she's in synch with the Administration's thinking: She favors balancing the budget but opposes a constitutional amendment. She hints she's skeptical of calls to invest part of the Social Security Trust Fund in stocks. And she backs Clinton's plan to provide tax incentives for education and training. “I'm concerned about rising inequality of earnings and its long-term social implications,” she says. “Education is the answer.”

Above all, Yellen wants to focus on rewriting last year's sweeping welfare reforms, which she fears may exact a huge toll on children without a safety net during the transition. “I am anxious to fix welfare,” she says. “There has to be more training and child care.” Based on research with Akerlof, Yellen doubts that slashing benefits will deter poor single women from having babies. The couple believes instead that the answer may lie in providing easier access to birth control and in punishing men who don't support their children.

Despite her strongly held views, Administration insiders question whether Yellen has the steel to prevail in internal battles over economic policy, which have been increasingly decided by Rubin and Deputy Treasury Secretary Lawrence H. Summers. If the new CEA chair intends to shape as well as sell economic policy for the Administration, she may have to produce another impressive set of Yellen Notes—this time for the man in the Oval Office.

By Dean Foust in Washington

Information Processing

TELECOMMUNICATIONS

SPRINT'S WIRELESS HIGH-WIRE ACT

Two cable partners want out, and talks are delicate at best

Two-and-a-half years ago, Sprint Corp. Chairman William T. Esrey saw what he thought was the communications company of the future: a joint venture with three cable-TV companies. The company would build a \$9 billion digital wireless system using its personal-communications service (PCS) technology to leapfrog competitors, and it would use the cable systems to get into the local-calling business. Esrey figured the wireless part of the venture would be larger than Sprint itself by 2001.

So much for the vision thing. Sprint PCS has been plagued by delays, and its cable partners are losing their ardor not only for the venture but for the phone business, period. The alliance backed off last year from plans to sell local service over the cable companies' lines. Now, Sprint is in talks with its partners to find a way for at least two of them—Tele-Communications Inc., with a 30% stake, and Comcast Corp., with 15%—to cut their equity in Sprint PCS. Cox Communications Inc., the third cable partner, is likely to hold on to its 15% share.

TWO SCENARIOS. Fortunately for Sprint, it can afford to rescue the joint venture. Its long-distance business is going well, reflected in the 20% rise in its long-distance calling volume last year and the 22.1% gain in its stock price. Plus, selling off a 20% stake in Sprint last year to Deutsche Telekom and France Télécom for \$3.6 billion has given



SPRINT PCS CEO SUKAWATY
Smaller rivals have outflanked him, but he could still get the jump on AT&T and MCI

Esrey financial room to maneuver. But the wrangling with his cable partners drags on, Sprint could lose valuable time.

According to executives close to the talks, which have been going on for several months, two possible Sprint scenarios are on the table. The cable companies could either sell their stakes in the venture directly to Sprint, which already holds 40%, or the wireless venture could go public, allowing the pa-

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ners to sell their shares on the open market. In either case, the cable companies are eager to cash in at least part of their holdings. "If we'd had our way, we would have gone public six months ago," says a senior cable executive.

So far, the negotiations are amicable—all of the companies want to preserve the value of their investments. However, tensions are rising. For example, the cable partners have yet to approve a 1997 budget. That's largely a technicality right now, but if there's no 1997 or 1998 budget by next Jan. 1, the cable partners could push to liquidate. "Think of it as a bargaining chip," says the cable executive.

Sparring among the partners comes at a critical juncture for Esrey: Sprint PCS is in the midst of launching its net-

lays were a black eye for Sprint.

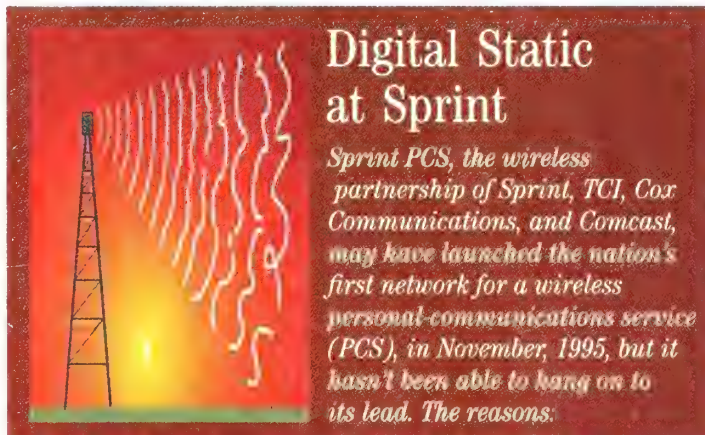
While Sprint PCS dithered, competitors pushed ahead. Western Wireless Corp. has started service in six markets, and PrimeCo Personal Communications—a joint venture of Bell Atlantic, Nynex, U S West, and AirTouch Communications—in 16, including Dallas, Miami, and New Orleans. Even tiny Omnipoint Corp. beat Sprint PCS to the punch in the important New York market, launching last November. Sprint is shooting for a Big Apple startup before the end of June. "Sprint has kind of dropped the ball," says Clinton McClellan, an analyst with Dataquest Inc.

Sprint concedes that its initial rollout is taking longer than first scheduled but says it shouldn't matter in the long run. "Our business plan has never

slow to develop, and trial results have been mixed. "We never got off the ground with that concept," concedes Esrey. Cox is the one partner still pushing phone service over cable.

NAME GAME. TCI has been the most vocal about pulling back. CEO John C. Malone wants to generate close to \$1 billion in free cash flow this year, and he's likely to achieve that if TCI makes its required contributions to Sprint PCS. TCI filed documents in January for a offering of TCI Telephony stock, which would include its Sprint PCS interest. TCI spokesman says TCI Telephony—a TCI—will be responsible for honoring the company's remaining \$440 million commitment to Sprint PCS.

Esrey is not likely to look kindly on an offering of TCI Telephony stock.



Digital Static at Sprint

Sprint PCS, the wireless partnership of Sprint, TCI, Cox Communications, and Comcast, may have launched the nation's first network for a wireless personal communications service (PCS) in November, 1995, but it hasn't been able to hang on to its lead. The reasons:

work. The venture will go head to head with cellular companies offering less versatile and noisier analog systems, but Esrey's gamble is huge: Sprint bought more PCS licenses in the Federal Communications Commission's auctions than any other company, paying \$2.6 billion to cover the entire U.S. "We have licenses for every inch of the country," boasts Esrey.

BUGS. Putting those licenses to use has not been a smooth process. After an affiliate launched digital service in the Washington area in November, 1995, Sprint PCS was supposed to start service in several cities in November, 1996. But technical problems caused a one-month delay and forced Sprint to settle for eight markets by the end of 1996 rather than the 15 to 20 it had planned. Why? One of its two equipment suppliers, Northern Telecom Ltd., found bugs in the software used to detect and diagnose system problems. The nine markets now up and running were built by Lucent Technologies. Nortel says the problems are fixed, and the first two networks using its equipment are scheduled to start up on Feb. 20. Still, the de-

counted on a big front-end bubble," says Andrew Sukawaty, chief executive of Sprint PCS. He speaks from some experience—Sukawaty helped launch PCS service in Britain two years ago. It has since taken 45% of the wireless market there from the two cellular players.

Sukawaty says Sprint PCS will offer service in 65 cities by June, including 35 of the nation's 50 biggest markets. That may be several months behind smaller rivals, but it will give Sprint a jump on its biggest long-distance competitors, AT&T and MCI Communications Inc. Stealing a march on those two is important, since all three companies hope to bundle wireless, local calling, and long distance together. AT&T plans to launch its PCS service by midyear, while MCI won't start reselling PCS services purchased from NextWave Telecom Inc. until yearend.

Sprint's cable partners still think the wireless venture will succeed. But Sprint PCS lost much of its strategic importance to TCI and Comcast over the past year. Instead, they want to devote more resources to their basic-cable business. For one thing, the technology to offer phone service over cable has been

TECHNOLOGY Software glitches have held down the number of cities where Sprint PCS has rolled out service, to nine rather than the 15 to 20 planned by now

ROCKY RELATIONS TCI's John Malone says he wants to pour all new investments into his core cable operations, raising questions about TCI's commitment to financing Sprint PCS

COMPETITION With five to eight wireless licenses awarded in each region, competition will keep Sprint PCS's margins thin for the foreseeable future

though Sprint declines to comment on TCI's plans. The stock would probably dampen the market's interest in Sprint PCS' own stock sale, which Sprint would like to do eventually. "That would screw up Sprint's plans," says an analyst close to the deal. Although Malone has filed documents for the TCI Telephony offering with the Securities & Exchange Commission, no date has been set.

Sukawaty professes not to worry. His four partners have already sunk \$3 billion of the \$4.2 billion they've pledged into Sprint PCS, and an additional \$1 billion in credit was secured from the lenders in October. That should be enough to finance the venture if it sticks to its plan. Besides, Esrey is willing to buy his partners out. "If more [equity] became available, we'd look favorably on acquiring more," he says. With \$2 billion in cash sitting on Sprint's balance sheet, Esrey can make good on that pledge. Given Sprint PCS' place of honor in his strategy, it's likely there will be a buyout—or an IPO—by yearend.

By Peter Elstrom in Kansas City with William C. Symonds in Toronto and bureau reports

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NETWORKING

CISCO'S SKID

Why its stock got hammered after it met projections

Intel Corp. and Microsoft Corp. may be the blue bloods of chips and software, but when it comes to the arcane world of computer networking, Cisco Systems Inc. rules. The 13-year-old company dominates nearly every area of networking equipment. More than 80% of the Internet's routers—the specialized computers that direct data traffic over the Web and yonder—come from Cisco. That has helped Cisco rack up annual revenue growth averaging more than 80% over the last four years. Its stock has been one of the hottest in the high-tech sector, peaking at 75% on Jan. 21. That gave the company a market capitalization of \$50 billion, exceeding that of General Motors Corp.

With such a spectacular rise, it was



CHAMBERS: "You're just seeing a little more nervousness in the industry."

only a matter of time before investors would start looking for the first sign of a slowdown. It may be here. Routers remain Cisco's core business at 25% of revenues and 35% of profits, but revenue growth in that segment will be only 30%

this year, says analyst Eric Black Bear, Stearns & Co. Sales in Europe, where Cisco gets 29% of its business, are sluggish. And Cisco's plans to update many of its products later this year could make customers hold off purchases.

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dreams.



The result: For the first time, revenues will increase by only 5% this quarter over the previous quarter, estimates Prudential Securities Inc. analyst T. Szymczak. That's half the rate of the previous six months and one-quarter last year's blistering 20% quarter-to-quarter increases.

ALLEGING. What's more, this comes on the heels of a quarter that already disappointed investors. On Feb. 4, the company met but did not exceed Wall Street's earnings expectations for the quarter ended Jan. 25. Cisco produced revenues of \$1.59 billion and earnings of \$3.5 million—86% higher earnings than the previous quarter and 61% more than the same quarter last year. But Cisco has blown past expectations for so long that investors read “slowdown” in the quarter, plunging its share price more than 10 points, or 15%, in the following week. As of Feb 18, the stock was still off 15 points from its peak.

Slower growth doesn't seem to be boding Cisco's management much. “We're headed into a traditionally challenging quarter,” concedes CEO John T. Chambers. But with a projected \$6.5 billion in sales this year, even a slower rate of growth is expected to translate into strong earnings. Prudential's Szymczak expects Cisco to boost revenues and earnings by 59% for the year.

That doesn't mean Cisco is out of the woods. The company also faces a threat from new technology called “Internet Protocol switching.” Supporters of this technique claim such devices can transmit data across networks five times

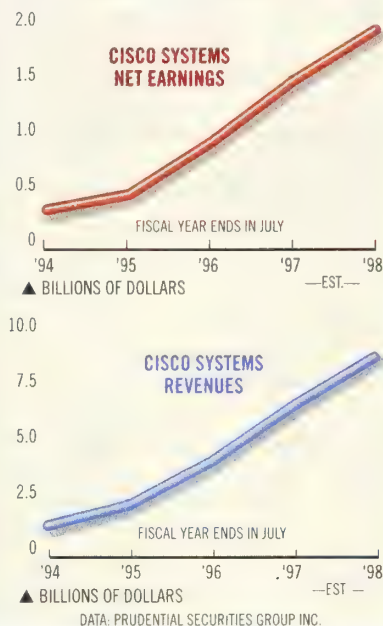
faster than routers. The new switch technology is “the biggest threat to Cisco we've seen in several years,” says analyst Paul Callahan of market researcher Forrester Research Inc. The switch was developed by startup Ipsilon Networks Inc. and is being pushed by Cisco rivals 3Com, Cascade Communications, and IBM.

Cisco is proposing an enhancement to its routers called “tag switching.” That technique speeds up networks by moving groups of data into an express lane that passes through the router. Chambers argues that customers demand these sorts of incremental upgrades. “You've got to be able to protect the installed base of routers,” he says. Analysts say that the new Internet Protocol switches are incompatible with one another.

Chambers insists that Cisco already has a better solution. He attributes the volatility of Cisco's stock to concern over its competitors. Cascade, Shiva, and 3Com spooked investors with a string of earnings disappointments over the last few weeks. “You're just seeing a little more nervousness in the industry as a whole,” he says. “People are for the first time seeing that there's going to be a shakeout, with real winners and losers.” He figures he knows which one Cisco is, but some investors still harbor doubts.

By Andy Reinhardt in San Francisco

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SUMNER'S



Viacom CEO
Sumner Redstone

LAST

In a recent rainy afternoon at the Times Square headquarters of Viacom Inc., Chairman and Chief Executive Sumner M. Redstone huddles with his two vice-presidents, Philippe P. Dauman and Thomas E. Dooley, over their regular lunch. Redstone, who meticulously monitors everything he takes on, sits at his nearly 74-year-old body, sits at a table with just a plate of dry corned beef hash ("Sumner's protein diet," observes Dooley) and launches into the global parochial issues he is tackling this week on behalf of Viacom, the media conglomerate he has assembled over the last decade.

First, Redstone says that News Corp.'s Rupert Murdoch just called, asking for a meeting the following week, when Redstone will be in Los Angeles. He suggested a stop being perceived as adversaries," Redstone says to two chief lieutenants. He wants to "see what we can do together." Dooley, a savvy financial executive who has been with Redstone for a decade and at Viacom even longer, outlines a strategy where Viacom and News Corp., already partners in Nickelodeon UK, might explore a deal.

Redstone adds a suggestion of his own. After all, he notes, "I think he just wants to have a sandwich." The next item on the agenda is how Redstone will handle the "fluid" relationship with Tele-Communications Inc. Chairman John C. Malone, who is under intense pressure to improve financial performance, has been threatening to toss popular networks off his system unless programmers cut a break on price.

Redstone alone personally assured Murdoch last summer that he would do nothing to harm News Corp.'s cable networks—MTV, VH-1, and Nickelodeon. But in the days leading up to this lunch, several TCI cable systems had pulled the plug on VH-1 and MTV. "I had an absolute, positive commitment from him. He promised it would not happen, but

He wants to cap his career with a dramatic turnaround at Viacom. Is he up to it?

STAND



it did happen," says Redstone. "I do not believe John Malone would cross Viacom. I just don't believe it."

Redstone and Dauman, a lawyer and Redstone's designated heir as chairman, review how Redstone will handle the issue.

Their strategy worked: A week later, TCI reinstated the Viacom channels where they had been dropped. The potential crisis was quietly averted. But the episode illustrates a central tenet of Redstone's operating philosophy at Viacom:

Why send a mere executive to do a mogul's job?

Of course, in the world of media giants, titans like to deal with one another directly, rather than through underlings. But until a year ago, Redstone had CEO Frank J. Biondi Jr. to shoulder some of the burden. Redstone fired Biondi last January, convinced that he alone had the energy, vision, and drive to lead the company. And Redstone is having the time of his life. He has few interests apart from tending to his beloved Viacom.

With the exception of Murdoch's News Corp., no other media company is so intricately shaped, for better or worse, by the personal ties of the visionary at the top. "Sumner is a mad genius," notes a media industry investment banker. "At the moment, he's probably more mad" than genius.

To his credit, in the year since becoming Viacom's unpaid CEO, Redstone has made some impressive strides. He's a legendary negotiator, regularly able to extract terms and close deals no one thought possible. On Feb. 18, Viacom



SIMON & SCHUSTER

announced that it sold its radio stations for \$1.1 billion—far more than analysts said they were worth. Redstone has traveled the globe brokering lucrative international deals potentially worth more than \$2 billion. He sold Viacom's cable

systems "in the nick of time," he says, as the industry foundered. He has overseen

a turnaround at Paramount Pictures Corp. (page 72). He launched new international channels to carry Viacom's content into far-flung markets and hired a formidable executive to head Blockbuster Entertainment Group. With his tirelessness, his passionate enthusiasm, and his laser-beam

ter unit sell more textbooks, doing his own background search on a man under consideration to become a marketing executive at Paramount, or engaging in prolonged debates over adding a few million dollars to a movie's budget. "There is a logjam there," observes Porter Bibb, an investment banker at Ladenberg, Thalmann & Co. "Viacom is drifting. All the major entertainment conglomerates do their damndest to focus in a changing, volatile climate, it's hard to know where Viacom is going. No strategic priority is emerging."

Indeed, Redstone has trouble articulating a comprehensive strategy for the company. He speaks in platitudes—"Grow Viacom to its maximum potential is the No. 1 priority. Television is never going to change," for instance—but he

Cover Story

RUNNING IN PLACE?

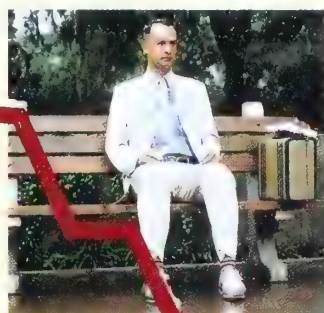
Viacom's stock has lost half its value since Sumner Redstone began building his "entertainment colossus" in 1993.

MONTHLY CLOSING PRICE OF VIACOM CLASS A SHARES

VIACOM



MARCH, 1993 *Beavis & Butt-head* debuts on MTV.



SEPTEMBER, 1993

Stock hits all-time high of 67½. Redstone announces acquisition of Paramount, says Viacom will soon be world's largest media empire.



JULY, 1994

bitter battle with Diller, Viacom acquires Paramount for \$1 billion, 25% more than initially planned.

DATA: BLOOMBERG FINANCIAL MARKETS, BW

intellect, Redstone has long been Viacom's greatest asset.

But he now may be something of a liability as well. While other industry giants are shuffling assets in a frantic bid to focus, Redstone is unable to state a clear, realistic vision of what precisely he wants Viacom to be. He can't afford that luxury. Winning the bidding war for Paramount in 1994 saddled the company with \$10 billion in debt. But the company doesn't generate enough cash to cover his grand ambitions. Paying the interest while investing heavily in growth has forced the company into a position where it's actually increasing its debt to fund operations.

At the same time, Redstone's expanding role atop the company overshadows the contributions of Viacom's extremely capable operating executives, thereby exacerbating a widely held view that the company lacks executive depth. But most significantly, his hands-on approach and involvement in comparatively minor decisions has imposed a troubling management gridlock at the company, which swelled from 7,000 employees in early 1994 to 83,000 today.

Indeed, Redstone still runs Viacom as if it were a mom-and-pop operation, with him all but living above the store. Of course, he does own 28% of the equity and controls 67% of Viacom's voting stock. Still, he spends much of his time on such nuts-and-bolts tasks as addressing a meeting of school superintendents in San Francisco to help his Simon & Schus-

THE BIG SQUEEZE

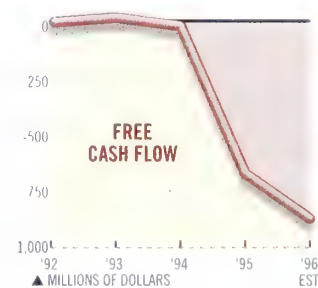
Viacom is failing to generate any free cash flow. Meanwhile, operating margins have tapered off dramatically, while debt remains high.

DATA: BLOOMBERG FINANCIAL MARKETS, MONTGOMERY SECURITIES INC. ESTIMATES

say just how that success will be achieved. "I now cannot take my word for it, the best media company in the world."

A year after he took direct control, Viacom's reported results are beginning to improve, but the fault lines running through the base of the company are deepening. Viacom beat analysts' estimates with third-quarter gains in revenue (up 13%) and cash flow (up 6%), and Redstone promises fourth-quarter results, due out the first week of March, to be similarly strong. Analyst Frederick W. Moran of Lehman, Selz LLC expects the company to report 1996 revenue of \$12.2 billion, up 9%, and cash flow of \$2.2 billion, up 2%. **CRACKS.** But peer a bit more closely, and cracks begin to show. Operating margins fell in each of the four major divisions in the first nine months of 1996. And if you look at the cash that the operating units are throwing off, after making their capital expenditures, you'll find there isn't any. Actually, there hasn't been any for years. Running the company at a deficit for so long has caused its total debt load to climb since the debt-financed acquisition of Paramount, despite about \$3 billion in asset sales since then (charts).

What's ailing Viacom's businesses? Revenues are rising—at double-digit rates at some divisions. But costs are rising faster. Because of weakness in the music industry, Blockbuster Music is losing money, and Viacom will take a \$100 million charge in the fourth quarter to cover its losses and close some stores. Spelling Ent-



ment Group Inc., which Viacom tried vainly to sell for \$1 billion a year ago, is losing money. And Viacom's chief business, MTV Networks, with MTV and Nickelodeon, pushing hard to expand overseas, but spending large sums to create beachheads in new markets. Consider Viacom's \$1 billion annual interest expense, the \$60 million it pays in preferred-stock dividends, and its roughly \$800 million in capital expenditures, and it's easy to see why Redstone has to rank his priorities.

Given the deterioration in Viacom's fundamentals, it's not surprising that its stock has lost half its value since 1993, despite a roaring bull market. Viacom looks no better when measured against Walt Disney, Time Warner, and News

DECEMBER, 1994 \$8.4 billion Blockbuster merger is announced. Viacom immediately drops about \$318 million in inventory.



JULY '95
50 7/8

JANUARY, 1995 Viacom is named No. 2 entertainment company in the world. Blockbuster reports it is in cash flow.

NOVEMBER, 1995

Blockbuster founder Wayne Huizenga resigns from Viacom board.

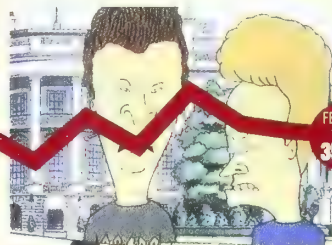


JANUARY, 1996 Redstone fires CEO Frank Biondi.

JULY, 1996 Cable system sold to pay down debt.

SEPTEMBER-OCTOBER, 1996 Viacom and National Amusements buy \$500 million worth of Viacom stock, with little effect.

DECEMBER, 1996 *Beavis and Butt-head Do America*, one of the year's most profitable movies, is released.



FEB. 18 '97
35 1/2

FEBRUARY, 1997 Radio stations sold to reduce debt.

Its stock has trailed the combined performance of the three by 43% over the past two years. No one has suffered more than Redstone. In 1987, after he acquired Viacom, his \$3.4 billion leveraged buyout, his stake was worth \$1 billion. By 1993, it was worth \$6 billion. Now, it's worth just \$3.5 billion, including the shares he bought recently for \$250 million.

Redstone won't rest until he has redeemed both his reputation and his fortune. Proving that he was right to fire Biondi and restoring his reputation as a media visionary is Redstone's personal mission as he strives to get Viacom back on track. He is remarkably fit: His tennis at the Beverly Hills Hotel says "no one plays as hard as I do at his age. He's like a 55-year-old guy." Nonetheless, Redstone says he "comes to terms with his own mortality."

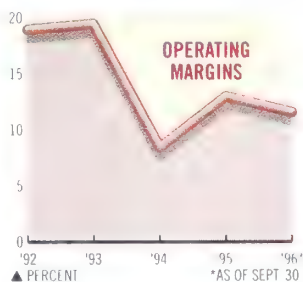
He can't escape the fact that he is running out of time to add the last chapter—that of a turnaround—to his remarkable career.

"I hope the world will someday recognize that I'm not an old guy, over the hill," he says. "I really do think I do a good job. Next year, media companies will be the thing, and we will lead them. The turnaround of Viacom is at hand." This is Redstone's last stand.

He's banking on a stock-price recovery triggered by financial results that will look even better measured against 1996 numbers and 6.1% fewer shares outstanding. In

fact, he has already worked up a Hollywood-style description for his turnaround of the company: "We've been over the tough part," he says. "Maybe Redstone did accomplish *Mission: Impossible*."

While his mission isn't impossible, it is certainly the toughest task Redstone has ever undertaken. He vows to get Viacom's \$10.2 billion long-term debt down to between \$6 billion and \$8 billion by 1999, without selling any major asset except the radio stations. To meet that ambitious target, he will have to start making some hard decisions. Redstone wants to generate \$200 million of free cash flow (cash from operations, minus capital expenditures) by 1998, compared with the \$875 million deficit Montgomery Securities analyst John Tin-

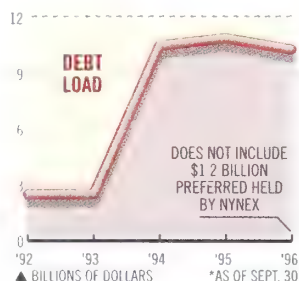


ker expects Viacom to post for 1996. That means he will have to cut the amount of money Viacom units have traditionally reinvested to expand. "The goal is to slow down the investment spending in the businesses," says Dooley. "We could literally pull \$1 billion out of the machine if we wanted to [no longer reinvest in] our businesses. The risk you run there is: Do you open up the door for your competitors?"

UNEASY MOMENTS. That likely will mean fewer Blockbuster store openings, since Blockbuster has always been allowed to reinvest all of its roughly \$680 million cash flow. The belt-tightening also could mean fewer new international channels for MTV and Nickelodeon.

Still, Redstone seems uneasy reconciling his need for austerity with his still expansive ambitions. "[I want] Viacom recognized as a growth company," he says. "We are a growth company." Indeed, Redstone insists that his new agenda of financial discipline doesn't mean that Viacom will relinquish its growth plans. "We can move the company forward, grow, and at the same time reduce our debt," he insists. "Maybe Blockbuster builds a few less stores. Maybe Simon & Schuster [forgoes] a few minor acquisitions."

Left to interpret and juggle Redstone's conflicting agendas are the men on his newly formed executive committee—Simon & Schuster's Jonathan Newcomb, Paramount's Jonathan L. Dolgen, MTV Networks' Thomas E. Freston, and Blockbuster's Bill Fields,





Cover Story

plus Dooley and Dauman. And since Redstone says no outsider will run the company, it's likely that one of these men will succeed him as CEO.

UNWIELDY. But after extensive interviews with Viacom's executives and board members, as well as those in the financial and creative community who regularly deal with the company, it's clear that Redstone is loath to give up much, if any, real authority. He won't appoint a president or chief operating officer, and an unwieldy six executives report directly to him and four more report to the "office of the chairman." The divisions are run on Redstone-reviewed budgets and plans, and Redstone himself attends to matters both profound and picayune. Notes Nynex Corp. CEO Ivan Seidenberg, who sits on Viacom's board: "Sumner's got his finger into the whole thing. He's ubiquitous, all over the place. I'm not worried. What has the guy ever not run well?"

Even if he can't recall ever reversing an operating executive's decision, Redstone insists on being part of the dialogue. "I try never to tell our management what they are to do. We collaborate. We're all friends," he says. "They do not consider [my input] intrusive. People like the fact that I care about what they're doing." Maybe so, but working for him isn't easy. A Harvard-trained lawyer, he loves conflict and seems to encourage executives to spar. "He very much believes, as most good lawyers do, that truth comes out of debate," says Sherman & Sterling mergers and acquisitions lawyer Stephen Volk, who has closely advised Viacom.

Of course, Redstone's firing of the well-regarded Biondi reinforced his tough-boss reputation. Two executives close to the company say Biondi refused to debate with Redstone, and toward the end of his tenure would be stolidly passive in the face of Redstone's demands. Redstone is unrepentant over the matter. "His [less aggressive] style was not working. They think I didn't love Frank. I did." Biondi, now CEO of Seagram Co.'s Universal Studios Inc., declined to be interviewed.

But again, while it is to Redstone's credit that he likes his executives to have their own ideas and defend them when challenged, his exacting, argumentative nature can also be a li-

AT THE TOP

Newcomb, Dolgen, Dooley, Dauman, Fields, and Freston make up the executive committee that runs Viacom, under Redstone's famously tough leadership

ability. Redstone has over years sued several media companies, including Time Warner and TCI, and he is currently suing—and being sued by—Universal, Viacom's partner in the Networks. "Sumner's a very litigious guy. All things being equal, [other companies] would rather not deal with Sumner," notes a media industry investment banker. "He's extremely difficult, litigious, not a partner of first choice."

A good bit of Redstone's iron-willed reputation is drawn

from a now famous story about how he survived a 1979 fire by dangling by his fingertips from a third-story ledge until he was rescued. But much like the apocryphal tale about George Washington and the cherry tree, the lesson from this one—that Redstone is awesomely tenacious—is true, while some particulars are not. A Boston Fire Department spokesman who was there that night says that Redstone was standing inside the room's large window, not dangling outside, when he was rescued.

BIG BOOST. But there is no dispute that Redstone was seriously injured in the fire. The event had a profound impact on his plans for the rest of his life. "He went through a terrible time after the fire," says longtime friend and Viacom board member George S. Abrams. "I've got to say it came from the introspection, all the pain. He was imprisoned for a while by the pain. He emerged from it thinking he could do more."

As Redstone turns his steely resolve toward a turnaround, he will get a big boost from some strategic bookkeeping. In the past year, Redstone and other top Viacom executives have blamed the company's poor performance on eroding margins at Blockbuster—which provides a third of its cash flow.

Indeed, on the surface, Blockbuster looks like a trouble-

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company. In 1994, before it was acquired by Viacom, margins ran in the high 20s. In 1996, Blockbuster's margins hit the low 20s. Redstone says that bringing in Bill Fields, once heir apparent at Wal-Mart Stores Inc., means that Blockbuster will

soon be back on track. It likely will, but the reason for the imminent turnaround has

Cover Story

little to do with the very capable Fields.

When Viacom acquired Blockbuster in the fall of 1994, it immediately wrote off about \$318 million, or two-thirds of Blockbuster's tape inventory. The write-down wildly inflated Blockbuster's margins, to as high as the low 40s, for the

next four quarters. Viacom desperately wanted superior financial results in 1995, because the terms of the acquisition both Paramount and Blockbuster would have required it to issue 39 million new shares and pay up to \$680 million to shareholders if the company's stock failed to achieve certain price targets. The last of the crucial price-target hurdle was cleared at the end of '95's third quarter—just as the inflated Blockbuster margins based on the accounting-adjusted comparisons disappeared.

For the next four quarters—the last of '95 and the first three of '96—margins began to fall back toward their historical average. Compared with the inflated 1995 results, it seems Blockbuster was in deep trouble as its margins

PARAMOUNT PUTS A GLINT IN REDSTONE'S EYE

It didn't sound like a winning script. Going into 1996, Viacom Inc.'s Paramount Pictures Corp. movie studio was headed for trouble. Most alarming for Viacom CEO Sumner M. Redstone, who got his start as the operator of movie theaters, was the glut of films scheduled for release by Paramount and other big studios. Even promising films, he figured, would fail as they were bounced from screens after one weekend to make way for new releases.

He began spending one week a month in Los Angeles, putting pressure on the studio's top executives, Chairman Jonathan L. Dolgen and studio chief Sherry Lansing, to turn the studio around. Dolgen, a hard-nosed cost-cutter who had already slashed \$50 million from the studio's overhead, and Lansing, a seasoned creative executive who can deftly handle the talent, managed to hand in a winning performance, pulling off an upturn in the studio's fortunes capped by an estimated 19% jump in 1996 cash flow, to \$390 million.

CLEAR PATH. Thanks to a strict diet of risk avoidance, a slashed production slate, improved marketing, and a healthy dose of luck, Paramount "is in the midst of a major turnaround," says Redstone. Analyst John Tinker of Montgomery Securities Inc. agrees that the picture for Paramount is looking clearer: "After a tough start, the studio has really begun to find its way."

Now, about 75% of Paramount's films are financed jointly with other studios, Lansing says. "The idea is

to sleep better at night," says Dolgen. "Sure, we may not get as much of the upside. But the costs of films today and the mortality rate are such that we have to look for someone to share the risk." Take *Titanic*, a Paramount/Twentieth Century Fox Film Corp. joint venture. Both share the film's upside, but Paramount's investment is capped. Fox



WILD MAN: Shock-jock Howard Stern in *Private Parts*

is on the hook for cost overruns. *Titanic* is "way over budget," Redstone says. "Fox pays more, tens of millions more."

And the studio hit a solid hot streak in the second half of 1996, with *Mission: Impossible*, *The First Wives Club*, *Star Trek: First Contact*, and *Beavis and Butt-head Do America*. These hits more than covered losses from *The Phantom* and *The Evening Star*. The movies get a big assist from an area that Dolgen has been careful not to cut: Paramount's traditionally strong marketing department. Through clever promotion, Paramount has been able to score hits on even mediocre films. Take *The First Wives Club*, just a

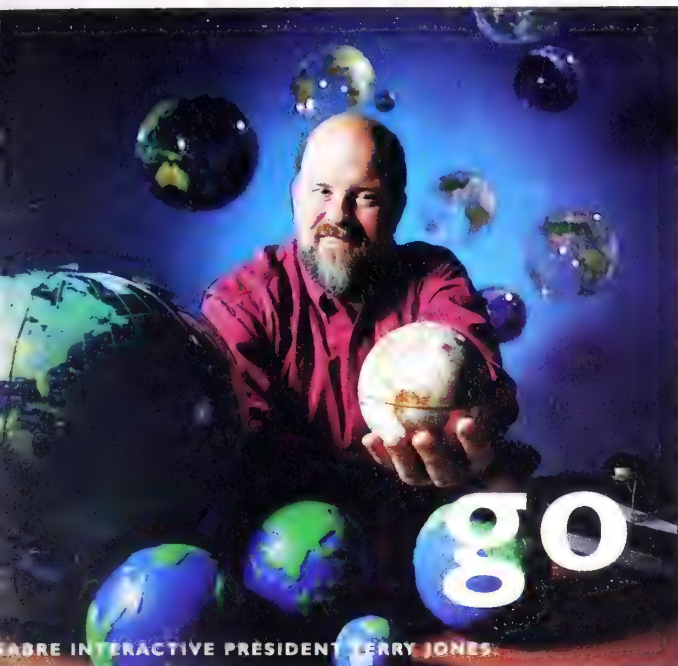
"cute picture," notes Michael Patrick, president of Carmike Cinemas Inc., the largest theater chain in the U.S. Paramount provided a smart release date and a savvy promotion campaign that landed it on the cover of *Time*. That made it "a great picture," says Patrick. "Quite a few times, Paramount's marketing and distribution is better than the picture."

Redstone plays a role in reviewing a film's marketing strategy. He goes over promotion plans with the studio's staff, and he is quick to draw on his experience as an exhibitor to suggest tactics. Lansing says Redstone suggested that stars of Paramount films routinely call theater chain owners, asking them to run trailers for their upcoming films, because that tactic worked on Redstone years ago.

But the real sleeper attraction at Paramount is its lucrative TV operation. Paramount has long been a leading TV producer, and it has a big-ticket series, *Frasier*, coming up for syndication in the fall. That show alone should bring approximately \$100 million straight to Viacom's bottom line in 1997.

Even though 1996 wasn't the disaster Redstone originally feared, Paramount looks like it will have an even better 1997. With the TV operation humming and upcoming films such as *Private Parts*, starring shock-jock Howard Stern, Paramount is likely to keep Redstone in good humor for some time.

By Elizabeth Lesly in New York and Ronald Grover in Los Angeles



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by as many as 14 percentage points.

The doings with Blockbuster's accounting have led to some tension between Redstone and former Blockbuster owner H. Wayne Huizenga. At last summer's Allen & Co. media executives' conference in Sun Valley, Idaho, the pair discussed the matter beside the lake one day. Recalls Huizenga: "I said, 'Summer, you keep saying Blockbuster is not doing well, and Blockbuster is doing fine. It's just the accounting. Blockbuster is being made the culprit when it shouldn't be.' I told him I didn't think it was right." Redstone doesn't remember discussing the merger's accounting with Huizenga: "This is much ado about nothing."

"Things didn't go to hell in a handbag like people have been led to believe," says Huizenga. "In my opinion there was more [merger-related] accounting than Wall Street knew and [Viacom] didn't know how to handle it." Oppenheimer & Co. analyst Alan S. Gould agrees: "I believe the 1995 numbers were not as good, and 1996 was not as bad, as people originally thought. The 1995 numbers were artificially high." Dooley, Viacom's top finance executive, says that the company had no choice but to write down the value of the tape inventory as part of the required purchase accounting for the deal, and that the stock triggers had nothing to do with the decision. Gould says that Blockbuster's old accounting was not unusual, and that Viacom "could have justified leaving it the old way."

DEPRESSED. As the distorted Blockbuster comparisons fade into the past, Viacom is again making a concerted effort to court big institutions that have shunned the stock. And there are signs that institutions may well be ready to take a chance on Viacom again—if only because the stock is so depressed that it is trading at about book value. Disney trades at 3.3 times book value.

It's a rather perverse setup for Redstone's grand turnaround. Thanks to the Blockbuster accounting and the lackluster performance posted by many of his units in 1996, this year's comparisons are bound to look terrific, and the stage is set for Redstone to collect popular acclaim for piloting Viacom to a stellar 1997.

If investors see only the improved cash-flow comparisons and ignore the troubling fact that Viacom still has a long way to go before it actually generates more cash than it spends, it should make for quite a closing shot: The dashing entrepreneur, having taken charge and stood his ground, saves the day. But like a lot of Hollywood fare, it's not such an enchanting tale if you read the script closely.

By Elizabeth Lesly in New York, with Gail DeGeorge in Miami and Ronald Grover in Los Angeles

Science & Technology

ROBOTICS

INVASION OF THE ROBOTS

Will HelpMate's success in hospitals get it sent home?



HOUSEHOLD HELP? Engelberger sees robots as a boon in caring for the elderly

At age 71, Joseph F. Engelberger knows time is running out on his lifelong ambition. He is already acclaimed around the world as the father of the industrial robot. But the workaholic chairman of HelpMate Robotics Inc. in Danbury, Conn., would rather be remembered as the father of the home robot. "Common sense tells you it's got to end up a bigger market than factory robots," he says.

Don't expect the Smiths and Joneses to turn their housekeeping chores over to a robot soon. The first model—which Engelberger has promised to his wife, Margaret, even though she's not crazy

about the idea—won't roll off an assembly line until 30 months after Engelberger amasses at least \$5 million in finish development. "The clock starts ticking when I get the money," he says.

People who know Engelberger figure he'll pull it off. "Joe is a very charismatic guy," says Brian R. Carlisle, president of robot maker Adept Technology Inc. in San Jose, Calif. "He's really able to make you believe in his visions." Just ask his kids. Daughter Gay, age 41, is HelpMate's marketing director, and son Jeff, 38, is an engineer at Adept Technology. "When you grow up with someone like him," Gay says, "how could you

ant to get into this business?" In-
also are under Engelberger's
In January, 1996, HelpMate's initial
offering was a sellout, even
h the company had an accumulat-
-fit of more than \$13 million.
y are so many people rooting for
berger? Because without him, De-
uto workers might still be welding
ainting cars by hand. Today's robot
ry stems from a 1956 cocktail par-
Westport, Conn., where science-fic-

FATHER'S FOOTSTEPS "When you w up with someone like him, how could not want to get into this business?" s Engelberger's daughter

fan Engelberger met inventor
ge Devol. When Devol mentioned
d applied for a patent on a punch-
controlled mechanical arm for doing
tive jobs in factories, Engelberger
looked.

persuaded his employer, Consoli-
Controls Co., to buy Devol's
t. The first prototype, dubbed Uni-
was finished in 1959 and went to
unloading a die-casting machine
General Motors Corp. factory. But
ears later, Consolidated lost inter-
and told Engelberger to close his
"I went to Barnes & Noble and
at six books on finance—and earned
BA over the weekend," he quips.
Monday, he proposed a spin-off and
given four months to find a backer.
d, and Unimation Inc. was born.

ENTERING. During the 1960s, Engel-
ber fought an uphill battle to per-
skeptical U.S. manufacturers to
by his programmable arms. He got
rmer reception in Japan—and
ese robot makers quickly rose to
l domination. Among Japanese
gers, Engelberger is "a legendary
e," says Shigeaki Yanai, a re-
her at the Japan Robot Assn.
imation held its own against the
ese, but in 1983 its cash-strapped
r, Condec Corp., sold the company
estinghouse Electric Corp. for \$107
n. "They picked a great time to
notes Engelberger. America's U.S.
business soon sputtered, after
as of companies jumped into the
et and sold some systems that didn't
p to promises. Sales peaked in 1984
\$4 million, then headed south.
gelberger had hoped Westinghouse
l see an opportunity in home ro-
When it didn't, he quit and bought

a 62-foot, \$800,000 sailboat with part of
his \$3 million take from Unimation's
sale. He planned to enjoy life as a gen-
tleman of leisure. That lasted for two
months. "I got bored pretty quick," he
admits. In late 1984, he formed Help-
Mate, initially called Transitions Re-
search Corp.

To pave the way for home robots, En-
gelberger decided to use hospitals as a
test bed. In 1988, he sold his first medical
unit to Danbury Hospital, which now has

two. They roam the hallways running
errands—delivering medications, meals,
X-rays, and patients' records. Handing
these chores to machines frees more time
for nurses and orderlies to concentrate on
caring for patients, says HelpMate Pres-
ident Thomas K. Sweeny.

Word of HelpMate's robots is spread-
ing. Baylor University Medical Center
in Dallas has 4 machines, with 11 more
on order. All told, 144 have been hired
by 85 hospitals in the
U.S. and Canada, 18 in
Japan, and 10 in Europe.
Purchased outright, the
robots cost \$110,000, so
most are rented for \$4 to
\$6 an hour.

Outwardly, the 4-foot-
6-inch robots resemble
the box-on-wheels sys-
tems that carry the mail
in some offices. But
there's a crucial differ-
ence: A HelpMate doesn't
follow a fixed track, such
as a wire in the floor. In-
stead, its electronic mem-
ory contains a floor map
of the hospital. When
summoned by radio or pointed to a lo-
cation on a built-in video screen, the
robot's microprocessor brain calculates
the quickest way to get there. En route,
the robot uses infrared and ultraviolet
beams to dodge people, food carts, and
gurneys in busy corridors, and it sum-
mons elevators and opens doors with
radio signals.

Sweeny says large hospitals can eco-
nomically justify one HelpMate for
every 100 beds, so "our total potential
market in the U.S. is 10,000 robots."
But that number would leap if the ro-

bots had arms. Then they could make
beds, help patients out of bathtubs, and
relieve nurses of other menial tasks.
These expanded capabilities would also
be needed in home robots, which is why
HelpMates with arms are next on En-
gelberger's list. Once HelpMates have
been fitted with arms, they could be
programmed for such household chores
as cooking, washing dishes, and sweep-
ing. Considering the precision factory
jobs that Unimation's arms still perform
using yesterday's technology, Engel-
berger foresees no major hurdles in cre-
ating household robots. And his chances
of attracting a backer are looking up.

In 1992, the U.S. robot business fi-
nally turned around. Lately, sales of in-
dustrial robots have been posting suc-
cessive all-time highs (chart). In 1995,
American industry found jobs for 10,198
steel-collar workers worth \$898 million,
according to the Robotic Industries Assn.

Now that industrial robots have re-
covered their sparkle and HelpMate has
moved into bigger quarters—Unima-
tion's former home—Engelberger is ea-
ger to launch an elder-care robot. Most
old folks who enter nursing homes are
mentally alert and healthy, Engelberger
notes. "They just aren't nimble enough
to care for themselves." All the tech-
nology developed for patient care would

be useful for elder-care
robots. Adding certain
repetitive household
jobs, such as loading the
dishwasher or micro-
wave oven, would be
fairly easy. Others, in-
cluding meal prepara-
tion, might involve spe-
cial-purpose attachments.
And for finding pack-
aged foods, the robot
could have a built-in bar-
code reader.

Even a \$100,000 home
robot would soon pay
for itself by enabling
people to stay out of
nursing homes. With the

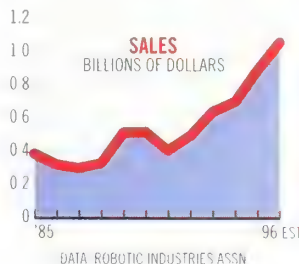
population quickly aging, demand could
surge, bringing down costs to "some-
thing more in line with the cost of a
car," says Sweeny.

Guess who Engelberger thinks should
market them? "If the auto makers want
to diversify, they need a product that
sells at roughly the same price point
and in the same volume," he says. Next,
the father of the industrial robot hopes
to become the proud papa of Chevy-
bots, Hondabots, and Volvobots.

By Otis Port in Danbury, Conn.,
with bureau reports

STRONG ROBOT SALES

The U.S. market for steel-
collar workers nose-dived in
the late '80s, then bounced
back—and may have broken
the \$1 billion mark in 1996





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IN SEATTLE, IT'S RAINING RESEARCH

Surprising findings on AIDS, cancer, woodlands, and birds

More than 5,000 scientists and reporters convened under clear skies in Seattle last week for the annual meeting of the American Association for the Advancement of Science. One headliner was Microsoft Corp. Chairman Bill Gates, whose prophecies were interrupted when his software flopped. Researchers discussed advances in such fields as AIDS, genetics, and birds' migration patterns. Senior Correspondent John Carey and Senior Editor Paul Raeburn report some of the highlights.

AIDS WEAPON FROM A LAB MISHAP

AS TWO YEARS AGO WHEN a researcher at the University of Maryland's Institute of Human Virology in Baltimore thought he had ruined an important experiment. He was injecting mice with cells of Kaposi's sarcoma, an AIDS-related cancer, to see if any of the mice had qualities that would protect them against tumors. The mistake was made when he put males and females in the same cage. The females became pregnant, which changed their hormonal balance and should have spoiled the test.

Instead, something remarkable happened: The pregnant mice turned out to be especially immune to Kaposi's sarcoma. Studies uncovered a family of molecules that shielded against the AIDS virus without apparent side effects. The molecules, called HCG-associated factors, or HAFs. (HCG is a hormone produced early in pregnancy in mice and humans.) Dr. Robert Gallo, director of the Institute of Human Virology, says his staff is working to identify exactly which HAFs are responsible for the protection.

Not only do HAFs seem to protect, but they promote the growth of bone marrow, Gallo reports. A research collaborator has demonstrated that a handful of cases studied earlier, HAFs kill Kaposi's sar-

coma cells in human subjects. "These are things we want to bring to clinical use as soon as possible," Gallo says.

HITTING CANCER WHERE IT HURTS

SINCE THE 1970S, SCIENTISTS have dreamed of zapping cancer with a biological magic bullet. They envisioned an antibody that homes in only on cancer cells to deliver a powerful toxin just to those cells.

The dream may finally come true. Dr. David A. Scheinberg of New York's Memorial Sloan-Kettering

Cancer Center announced the first clinical trial using an antibody linked to a source of cancer-zapping radiation. The initial quarry: leukemia.

It took years to engineer the antibodies and design a way to attach the right cancer-killing substances. But Protein Design Labs Inc. in Mountain View, Calif., has cooked up an antibody that targets the CD-33 receptor found on leukemia cells. To the antibody, Scheinberg's team attaches bismuth-213, an element that emits alpha-particle radiation, but only for a short time; its so-called half-life is 47 minutes. In preliminary clinical tests, the combination swarmed over leukemia cells without apparent side effects. If this approach snuffs out leukemia, Scheinberg hopes to adapt it for mopping up cancer cells often left in the body after cancer surgery.

THE NET IS FOR THE BIRDS

BIRD WATCHERS MAY SOON BE FLOCKING TO THE INTERNET. Computer scientists at Cornell University have demonstrated a home page for Project FeederWatch, based at Cornell's Laboratory of Ornithology. FeederWatch, a citizen-science program, tracks North American bird populations and migrations. It is funded by the National Science Foundation and supported by Canadian and U.S. nature groups, including the National Audubon Society.

For a decade, birders have been counting the birds stopping at their feeders and sending the counts on paper to Cornell. Now, some of the 10,000 backyard researchers are uploading their counts via the Net. If all goes as planned, the FeederWatch site will be open to the public, so that millions of bird lovers can seek up-to-date maps and reports on the routes of redpolls, juncos, and goldfinches.



FORESTS: WORTH MORE ALIVE?

THE TOWERING DOUGLAS FIRS and other venerable trees that ring Seattle have been the focus of fierce environmental battles. The question comes down to this: Are the standing trees worth more than the lumber they could yield? Walter V. Reid of the World Resources Institute in Washington argues that natural ecosystems such as the Pacific Northwest forests are the source of products and services that are worth hundreds of millions of dollars, or far more than their lumber value.

The Northwest forests were the source of Taxol, an important new cancer drug extracted from the Pacific yew. Indeed, 57% of the medicines used in the U.S. come from nature's products. And their potential value is rising as it becomes easier to find them. It now costs only \$150,000 to screen 10,000 natural extracts for possible pharmaceutical use, Reid says. Stepped-up prospecting is already starting to pay off: A substance called michellamine B was recently extracted from a vine in Cameroon. Laboratory studies suggest it could be effective against AIDS.

FUNDS

SURPRISE! MUTUAL FUNDS AREN'T DRIVING THE MARKET

Popular theory holds that they've been the yeast in the Dow's rise. Not so

Deutsche Morgan Grenfell Chief Economist Edward E. Yardeni could not be more confident about his prediction for the U.S. stock market: "Dow 10,000 by 2000," he boldly states. To Yardeni and a vast array of other market commentators, the reason for the market's strength can be boiled down to two words: mutual funds. "Mutual-fund investors are doing to stocks in the 1990s what they did to real estate in the 1980s, sharply marking up prices," says Yardeni.

A compelling argument—one that is rapidly becoming part of the market's conventional wisdom. And on the surface, at least, it seems to make perfect sense. For one thing, no one can deny that mutual funds are a significant source of market liquidity, with small investors stepping in to buy stocks, via mutual funds, in virtually every market setback since the crash of 1987. But the fast-spreading view that mutual funds are pushing the market skyward—and might easily trigger a crash if fund customers grow wary—simply is not supported by the hard data. Market fund-flow experts, in fact, take a contrary view. Far more important, they argue, is the confluence of low interest rates, low inflation, and strong corporate profits. "The market is not especially sensitive to changes in fund flows," says Laszlo Birinyi, president of market consultant Birinyi Associates Inc.

HAND OVER FIST. Indeed, one of the few academic studies of the relationship between fund flows and stock prices shows that the correlation is, at best, weak. A soon-to-be-published study by Columbia University finance professor Michael Adler shows that while fund flows influence stock prices, and have

HEALTHY MIX
Most likely, the market's steady

climb is traceable to low inflation, low interest rates, and strong corporate profits

since late 1993, they have all the impact of a pebble tossed in the ocean. According to Adler, on a scale of 1 to 10, with 10 being direct cause and effect, funds are only a 3.

Even huge changes in fund flows do not seem to affect stock prices. A Birinyi study shows that after the 10 largest monthly declines in equity-fund cash flows during the six bull markets

since 1970, the market actually rose as much as 7% (table). The market has also remained flat for long periods even after money has poured into the fund industry over fist. In 1995, when cash flowing to equity funds was at a record \$119 billion, Standard & Poor's stock index rose mere 1.3%. The culprit: rising interest rates.

Even when mutual-fund sales and the stock market appear to be moving in unison, a chicken-and-egg question arises: Is rising stock prices driving people to invest in mutual funds, or is it the other way around? A strong case can be made for the view that fund investors are following the market—not causing it.

Leah Modigliani, U.S. equities analyst at Morgan Stanley & Co., thinks fund investors chase performance. "They are now doing what index funds. 'People are looking for low performance. It's

an unintelligent thing to do. They're going into index funds just the way you went into Magellan," says Modigliani.

Even big inflows of cash into equity funds can't prevent a market setback. The first five months of 1996 are among the strongest on record for money going into equity funds. Yet the market was flat in June and dropped 5.9% in early July—due largely to a



Federal Reserve would raise interest rates. It was only after these fears subsided that the market realized its rise.

Why are funds so lacking in market influence? The reason might well have to do with the source of the funds used to buy mutual funds. While the prevailing view is that fund investors are cashing in piggy banks to buy mutual funds, they are, in fact, often selling—thereby drastically reducing the overall market impact. One clue comes from the Fed flow-of-funds data. Through the third quarter of 1996—the latest available Fed data—individuals sold \$184 billion in equities while funds used to buy equity funds may well have come from selling stocks.

ANDRA WATCH. So the doomsday scenario raised by some market watchers—that a falloff in fund purchases will lead to a crash—has little validity. If there is any guide, a sudden change in fund flows won't be the trigger to a market calamity. A more likely cause would be a significant jolt to the economy, such as the sudden surge in interest rates that induced the 1987 crash. Morgan Stanley market strategist Byron R. Jones thinks that if anything stops the market this year, it will be rising interest rates, not a drop in fund flows.

Be sure, tracking mutual-fund cash flows has its place. Such data have become a valuable tool to analyze short-term movements in market sectors. Investment bankers use it to gauge

GOING TO A BEAT

...ing shows
...est monthly
... in equity
... and inflows
... all markets
... change in the
... in the month
... followed.

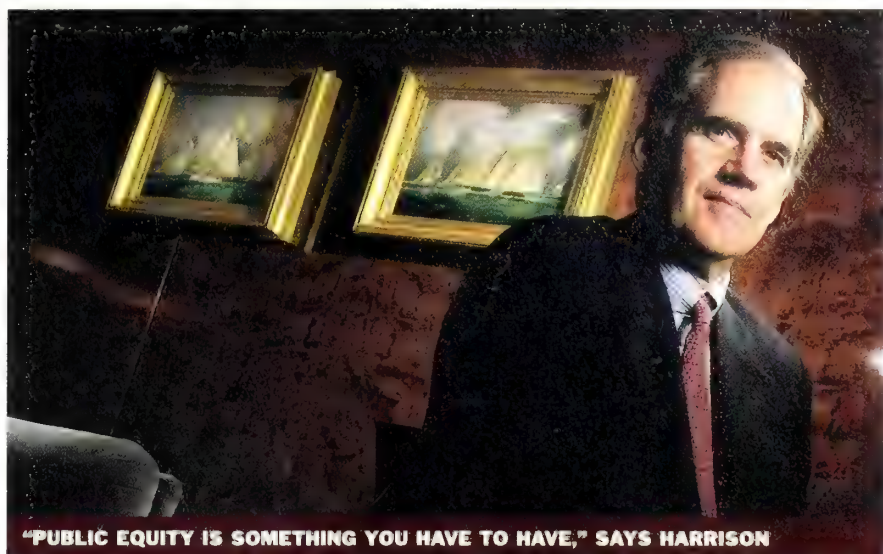
CHANGE IN FUND INFLOWS	CHANGE IN S&P 500
-72%	6.7%
-64	4.8
-56	0.9
-55	1.4
-44	1.2
-43	1.0
-32	-5.9
-26	1.1
-19	1.2
-18	-4.6

ASSOCIATES INC

interest in initial public offerings or municipal bonds, for example. When comparing fund flows to underwriting volume to assess the supply of new cash available for equities. "It's just one of many variables for looking at supply-and-demand conditions for stocks," says Wien.

The enormous growth of mutual funds has certainly turned the industry into a critical component of the stock market. But are mutual funds really the driving force behind the market? Don't bet on it.

By Geoffrey Smith
in Boston



BANKING

BIG BANK, GRAND AMBITION

Why Chase is taking the plunge into equity underwriting

When buyout specialist Hicks, Muse, Tate & Furst Inc. wanted to purchase a unit of American Home Products Corp. last year, it needed \$1.19 billion. It made one stop at Chase Manhattan Corp. for advice, loans, bond financing, and a cash infusion. But should Hicks Muse want to take the unit public, it would have to look elsewhere. That's about to change.

The nation's largest bank is ready to move into equity underwriting. It will be the first major U.S. bank with retail operations to try to go head-to-head with Wall Street in underwriting U.S. equities. Says Chase Vice-Chairman William B. Harrison Jr.: "If you truly want to be a global multiproduct player, public equity is something you have to have." The soft-spoken North Carolinian plans to build from scratch, but he doesn't rule out an acquisition.

For the past three months, from his roomy Park Avenue office, Harrison has been eyeing Wall Street talent to lead his equities charge. The corporate banking chief wants to hire one person from an established equity player such as Goldman Sachs & Co. or Morgan Stanley & Co. to run the whole show, but he'll settle for two co-heads—one to oversee sales, trading, and research and the other to guide underwriting. Then comes a sales team, a trading desk, and a research department, which at first

will focus on five to six industry sectors. Probable industries include media, broadcasting, and telecommunications, areas in which Chase is strong and initial public offerings are likely. "In a two- or three-year time period, I hope we will have the beginning foundation of a very good equity business," says Harrison. In three to four years, he says, the business could earn a return on equity of more than 15%.

BIG LENDER. Chase has a number of skills to leverage into success with equities. It leads in syndicated lending and ranks 10th in underwriting high-yield bonds, after only three years of experience. It is a giant in private equity investments, trading, and private placements. It has a long roster of top corporate clients and a huge war chest of capital.

Becoming an equities leader will require a large investment over 5 to 10 years. A major equities house—with 500 or so salesmen, traders, and analysts—costs \$200 million to \$300 million a year, says Brown Brothers Harriman & Co. analyst Raphael Soifer. "It's not a cheap date," one banker quips. But Harrison says: "We are not going to spend \$1 billion in the first two to three years."

Chase also faces growing competition. Dominant U.S. investment banks will not cede share easily. Large European banks such as Deutsche Bank and

Union Bank of Switzerland have been spending millions to muscle into the market. Other U.S. banks, such as NationsBank, BankAmerica, and First Union are likely to jump into the fray.

These trends may push Chase to move faster. "It would be better off buying any firm around," says an international rival. Chase President Thomas G. Labrecque concedes that his bank doesn't have the decade it will take J.P. Morgan & Co. to hit the big time in equities. "In a market that is consolidating, we are going to want to get there faster than that," he says. Chase has studied buying big Wall Street firms, boutiques, and equity teams from rivals, but Labrecque says it is hard to integrate the diverse cultures. And Harrison says: "Buying something today does not make sense, because we would be buying at the top of the market."

Managing an equities shop is no easy task. It must be well integrated with other business lines to work. Relationships with issuers center on CEOs, rather than CFOs, who make the high-yield and lending decisions on which Chase has

focused. And to get the overbrokered investor's ear, firms must learn to differentiate their product. "You have got to have a major league distribution. And the risk profile of the equity trading desk, these people won't have the stomach for," says Thomas W. Weisel, chief

THE PAYOFF

- Big revenues, since fees are more lucrative than from underwriting other securities or from the ever-shrinking spreads on most loans.
- It will help retain corporate customers by filling in a product gap. Clients don't have to go elsewhere when they want to sell stock.
- Offering equities helps bring in clients for other businesses such as mergers and acquisitions and underwriting of debt securities.

executive of Montgomery Securities.

Take J.P. Morgan. It began overhauling its culture in the early 1980s by turning stodgy bankers into dealmakers. Pay scales were revamped. First Morgan underwrote equities and other securities overseas. Then it struggled to transfer these skills back to the U.S., where it started by underwriting municipal bonds, commercial paper, as-

set-backed securities and corporate bonds. It was the first commercial bank to get equities powers in 1990 from the Federal Reserve Board as it eased restrictions imposed by the 1933 Glass-Steagall Act and the first to see its sights on becoming a Wall Street titan.

Hundreds of millions of dollars later, Morgan still ranks 16th among U.S. equity managers in 1996. It led in deals that year, vs. leader Citicorp's 92.

Other bank equities players lag behind Morgan. Banc of America Trust New York Corp., a Morgan a purely corporate bank, started in 1995 and led four deals. Citicorp is focusing on the emerging market.

International participants have yet to make their mark. "No banks have really made it yet," says Soifer.

But that won't be the case forever. Down the road, if Harrison has anything to say about it, Hicks Muse will just as easily be able to issue securities through Chase as through an investment bank.

*By Alison Rea, with Lisa Sanders
New York*



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DESERT TRADING POST

In Arizona, a computer
make stock pricing fairer

seven years, Steve Wunsch has struggled to launch his innovative electronic auction system, the Arizona Stock Exchange, into the big time. For seven years, Wunsch has led his enterprise flounder as trading volume failed to materialize. But the AZX's long-range goal of handling as much as 30% of all U.S. trading seems wildly optimistic, his venture may finally be gaining steam.

In recent years, the AZX, which is owned by a Sun Microsystems Inc. subsidiary in Phoenix, has traded a paltry 10 or so shares a day for its institutional clientele—well below the 10 that Wunsch says he needs to even. The problem, he says, has been Securities & Exchange Commission rules limiting the AZX to a single session at 5 p.m. Eastern time, when traders have packed up for the



WUNSCH: *He cuts out the middle-man on trades*

day. But the SEC has changed its stance, and at the end of April, Wunsch will launch a 9:15 a.m. auction in the 15 most actively traded NASDAQ stocks. Within a few months, he plans to trade in all the 4,147 stocks on the NASDAQ National Market. NASDAQ has become an unlikely ally, planning to build com-

puter links to the AZX and then using Wunsch's system to officially open trading for all NASDAQ national stocks later in 1997. With a daytime auction, Wunsch figures that he could easily quadruple volume in a year.

BIG MEET. What does the AZX offer traders that other systems don't? Its auction is designed to bring together as many buyers and sellers as possible at a predetermined point in

time. Then, based on the orders in the system, it sets a stock's price at the level that will execute the maximum amount of shares. There is no middle-man to take a spread between a bid and ask price.

This "single-price" system contrasts with continuous auctions such as the

Help me, I'm working and I can't get up! The more you make, the more they take. Everybody gets theirs and you get what's left. Will it be enough for a comfortable retirement? You've made some investments, but now you may not feel quite as good about them. And does anyone need to ask how you feel about Social Security? Perhaps you should consider something that could give you a little more confidence. May we lend you a hand? You will find a wide range of investment opportunities at American Century to help you meet your future needs. We have over sixty mutual funds organized to diversify your portfolio. To help get you up and keep you ahead. More than two million people trust us to manage their money—nearly \$54 billion, and climbing. They seem to like our approach to investing. It's a little different from most others. Our funds are managed by teams. Instead of individuals. We think that allows us to make better and more consistent decisions. We also weigh our independent research against market trends. To see if they are right. Independent thinking. It can make the difference between winning and losing. Invest in our thinking. It could give you a new outlook.



AMERICAN
CENTURY.

New York Stock Exchange or Instinet, where traders can place orders throughout the day but may not find any takers immediately and so may reveal their hand to the market. And unlike popular crossing systems such as ITC's Posit System or Instinet's Crossing Network, which also bring traders together at fixed times, Wunsch's system sets its own pricing, rather than executing trades at NYSE or NASDAQ closing prices. "Nobody else offers a true auction that can set pricing that is independent of a major exchange," says Wunsch.

Here's how it works: Any time in the hour before AZX's computers run an auction, traders can log into the AZX auction books, click on an equity, and put their order up on the screen. Buyers post the size of their order and the maximum price they're willing to pay, and sellers post their minimum sale price and trade size. For total anonymity, traders can post orders to a special "book" of undisplayed orders, but they pay a commission cost of 1¢ per share, instead of as little as ½¢ for displayed orders. After an hour, the computer aggregates the orders and selects the one price for each equity that will maximize the number of shares traded (table). In practice, however, this hasn't worked. Instead of trying to discover new prices, traders have used the AZX like a crossing system, putting in trades at NYSE or NASDAQ closing prices.

Wunsch hopes his morning auction will attract greater volume from more active traders. Since the AZX is designed to bring a large number of buyers and sellers together at one time, traders should be able to place large orders without causing a swing in an equity's price. Therefore the exchange has the potential to set prices that are more reflective of supply and demand in the market. The key, however, is attracting volume. "It's a great concept that has never worked in practice," says Christopher Keith, a founder of the Chicago Stock Exchange's failed electronic trading system, Chicago Match, and now the president of Global Trade Inc., a financial software and product-development firm.

"CLEAN OPENING." That doesn't faze Wunsch, whose single-mindedness is legendary. After college, Wunsch spent 10 years as a full-time rock-climber before heading to Manhattan to trade interest-rate futures. Before long, Wunsch was helping develop the market in stock index futures at Kidder, Peabody & Co. After failing to interest Kidder in his idea for a new stock-trading system, Wunsch looked farther afield, and in

1991, linked up with the state of Arizona, which was eager to promote itself as a budding financial market. In return for naming his venture the Arizona Stock Exchange and shipping his computer to Phoenix, Arizona gave Wunsch a \$2 million loan.

Attracting the backing of NASDAQ is a major coup for Wunsch. NASDAQ's motivation for adopting the AZX system is, in part, an attempt to mute investor criti-

gle-price auction could be a dramatic tool to make a very clean opening for our market," says NASDAQ chief economist Dean Furbush. AZX's software is being integrated into the network of workstations that make up the NASDAQ National Market, which would give NASDAQ investors access to the system. That could cut into some profits from trades for NASDAQ market-makers, the more stable opening prices and

Matching Supply with Demand

How is a stock price set on the AZX? In this simplified example, five buyers and five sellers exist for a stock, all posting different prices at which they're willing to buy or sell 10,000 shares of stock.

The price that clears the market, executing the maximum amount of shares, is 30½¢, which moves 20,000 shares. Any other price would not bring equilibrium between supply and demand. For instance, at 30¢, there are three buyers, or demand for 30,000 shares, but only one seller, with a supply of 10,000 shares.

With the price at 30½¢, sellers posting prices above 30½¢ keep their stock and buyers below that price go away empty-handed. But some sellers, such as those with orders at 30¢, get a higher price, and buyers who input order of 30¢ get their order filled for ½¢ less, at 30½¢. On traditional exchanges, a middleman, and not investors, might profit from that ½¢ spread.

BUYERS			SELLERS		
PURCHASE PRICE	AMOUNT (SHARES)	TOTAL DEMAND	SALE PRICE	AMOUNT (SHARES)	TOTAL SUPPLY
30%	10,000	50,000	30%	10,000	10,000
30%	10,000	40,000	30½	10,000	20,000
30%	10,000	30,000	30%	10,000	30,000
30½	10,000	20,000	30%	10,000	40,000
30%	10,000	10,000	30%	10,000	50,000

DATA: BUSINESS WEEK

cism of its own system. NASDAQ has no official opening—that is, no set opening price for each stock. Dealers simply begin the day by posting different quotes, and the first trade to hit the ticker becomes the opening price, often creating a frenzy of volatility. NASDAQ dealers, who make a spread on each trade, can take advantage of temporary inefficiencies in pricing by trading for their own accounts. That frustrates traders. NASDAQ's opening "is chaos," says Harold S. Bradley, director of equity trading at American Century Funds. "The volatility undermines any confidence that pricing is fair and objective. It is very risky to place any orders."

Wunsch's morning auction would get rid of that excess volatility at the start of the day by computer selection of the opening price that matches supply and demand. With that benchmark set, traders could then begin the day with less fear of being hurt by swings in stock prices. "We think Wunsch's sin-

er trading costs should bring increased volume. Wunsch's hope is to eventually have three daily call auctions.

To beef up volume, Wunsch plans to display his auction in real time on the AZX Web site this spring. He hopes it will spur retail investors to place orders on AZX through online brokers. He is also building links with other alternative trading systems, such as the New York Stock Exchange's EBS. The AZX will also be accessible through Bloomberg's new Tradebook system this spring.

Wunsch's success is far from assured. The AZX wouldn't be the first alternative trading system to fail: In the past decade, only three of the approximately 20 electronic trading systems launched have been successful. But Wunsch remains optimistic: "The stars are finally coming into alignment," he says. "It's the right place in time to make this work."

By Kathleen Morris in Los Angeles
with Jessica McCann in Phoenix
and Suzanne Woolley in New York

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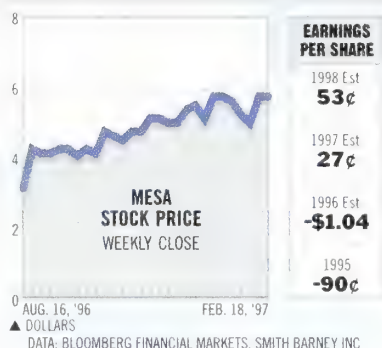
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BY JEFFREY M. LADERMAN

BETTER PICKIN'S?

In the 1980s, the name T. Boone Pickens struck fear in Big Oil executive suites. But he was better at raiding other companies than running his own: Mesa (MXP) hasn't turned a profit since 1988. Last year, under shareholder pressure, Pickens turned to superinvestor Richard Rainwater. A Rainwater-led group put \$130 million in equity into Mesa. An equal amount was raised through a rights offering. Then, Pickens stepped aside, and Rainwater

PUMPING AWAY



chose Jon Brumley, a highly regarded oil-patch veteran, to take charge.

Now, Mesa's prospects are perhaps the best in a decade. The stock, at 5%, is up from 3 last summer, and some think it could hit 8 this year. The Class A preferred shares, which pay stock dividends, trade at 7, and could hit 9. Still, Mesa is barely on Wall Street's radar. Kurt Wulff of Smith Barney is the only analyst to rate this Big Board company an unqualified buy.

Wulff, who has followed the industry for 30 years, is banking on Brumley, who built successful oil-and-gas companies in the 1970s and 1980s. Brumley's goal is to boost cash flow 25% in two years, and it looks as if the company may even turn a profit this year. "Mesa has always owned terrific assets," says Morris Mark of Mark Asset Management, which owns 2.8% of the outstanding shares. Adds Wulff: "Mesa's problem was that its cash flow was committed to debt service, with nothing left to invest."

With plenty of cash and a \$650 million line of credit, Brumley is making acquisitions that Wulff says will turn

Mesa around. On Feb. 6, Mesa announced the \$66 million purchase of MAPCO's natural-gas liquids and condensate reserves in Texas' West Panhandle field. Four days later, Brumley bought Greenhill Petroleum for \$270 million.

Greenhill's main properties are two aging Louisiana oil fields that have already produced 1 billion barrels. Wulff says with new 3-D seismic mapping and horizontal drilling, it's possible to coax a further 100 million barrels from the fields. If he's right, the deal will be sweet—since Mesa's cost is based on 30 million barrels of proven reserves.

CELL-PHONE SCRAMBLERS

Last year, House Speaker Newt Gingrich was on a conference call talking about his ethics case—and it almost did him in. The call was picked up off the air by Democratic loyalists. Too bad for Gingrich that one of the conference participants was talking on a cellular phone and wasn't using an encryption device, such as those made by Cycomm International (CYI), which would protect callers' privacy.

The need for secured wireless communications is what makes Cycomm in McLean, Va., a compelling buy, according to Anthony Marchese of New York's Dimar Partners. The stock traded as high as 7% last spring on the American Stock Exchange but is now at 3%. That's a market capitalization of \$25 million—about what the company expects sales to be this year.

Marchese says Cycomm is especially cheap considering that a competitor, Transcrypt International, has a market cap of more than three times as much—with about only half the sales. He thinks Cycomm will double in 12 months and notes that insiders have been buying shares since late last year.

Cycomm, which also builds "ruggedized" and secure wireless computers, is not aiming for a mass market. Most phone users don't need security enough to pay \$400 to \$800 for an encryption device. Albert "Bud" Hawk, a mergers-and-acquisitions lawyer who became Cycomm's CEO last year, says his market is law-enforcement agencies and professionals such as doctors and lawyers. Luke Smith, who follows the company for Chesapeake Research in Towson, Md., says secured wireless devices could sell big abroad, too.

Smith says Hawk's M&A talents will help the company grow. On Feb. 6, Cycomm said it would acquire Tri Corp.'s Secure Computing Products unit, with \$2 million in sales, for just \$200,000. Hawk says the inventory alone is worth three times that.

Still, the company is not profitable. Hawk says it may happen this year, but in any case "we will be cash-flow positive." Smith recommends buying the stock up to a price of \$5.

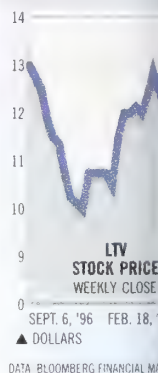
THIS STEELMAKER MAY BE A STEAL

In the information economy and information-technology-driven bull market, steel stocks have all the pizzazz of a sizzling hot pizza. Look at LTV (LTV), which sells at 12%. True, it's up from 10 in November. But the stock is still \$1 below the 52-week high it hit in September. Meanwhile, the Standard & Poor's 500-stock index has climbed nearly 25% since September. Philip Schettewi, managing partner at Loomis Sayles and portfolio manager for the new Loomis Sayles Strategic Value Fund, thinks the steelmaker is a bargain, capable of producing a 50-to-70% gain this year.

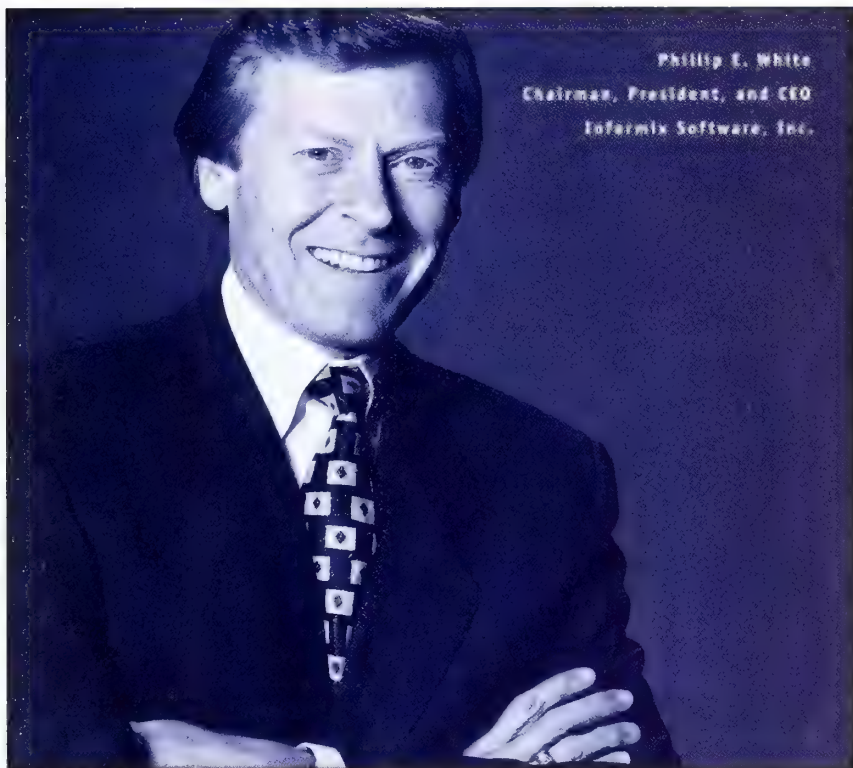
Schettewi's not banking on rising prices for steel. LTV is attractive all by itself. The once onerous unfunded pension liabilities are nearly fully funded. It has about \$6 a share in cash, and the company plans to buy back up to 5% of its stock. And insiders, including CEO David Hoag, are also buying shares.

Paul Latta, a steel-industry analyst at Seattle's Ragen Mackenzie, says LTV looks good in its peer group. "LTV is the consensus earnings forecast every quarter last year," he says. "Most steelmakers did not." It also earned \$1.10 a share in 1996—about as much as the Street forecast for 1997. Schettewi thinks this year's profits will reach \$1.25. If it starts to look as if it's right, the rest of the Street will be scrambling to boost estimates. That can do wonders for a stock.

NOT SUCH A SLAG HEAP



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UNITED THEY DON'T STAND

Can Glawe and Greenwald heal the rifts at the airline?

Michael H. Glawe is a soft-spoken, cerebral guy. But during the final years of the Vietnam War, he was one of the U.S. Air Force pilots who undertook such gutsy missions as flying American prisoners of war out of Hanoi. In 1975, as Saigon fell, he evacuated a group of injured orphans after their first plane crashed at the edge of the airfield.

Not long after, 11,000 miles away in Venezuela, veteran auto executive Gerald Greenwald was leading the fight to save huge investments by U.S. carmakers from being wiped out by repressive new laws. After staring down the government, Greenwald tripled employment at Ford Motor de Venezuela while doubling market share and upping earnings tenfold in just three years.

Conflicts of a very different sort, to be sure. Yet each man came away with a reputation for steely resolve. Neither brooks much opposition when he believes he's right. Now, Greenwald, chairman and CEO of United Airlines Inc., and Glawe, head of United's Air Line Pilots Assn., are locking horns. And whether these two strong-willed men come to terms will go far toward determining the fate of the world's No. 1 airline and its celebrated \$5 billion employee stock ownership plan (ESOP).

Tensions have been high since Jan. 16, when United's 8,500 pilots, by an 80% margin, rejected a proposed pay hike of 10% over four years. Afterward, Glawe (rhymes with law) ordered all pilots off employee task teams and decreed that communication between the pilots and United would occur only through him and Greenwald.

"BLINDSIDED." The rift came as a surprise. United is posting record earnings. The pilots, who hold 25% of the stock, backed Greenwald to run a worker-owned United during a failed 1990 buyout attempt and again when the

deal went through in 1994. And just a year ago, Greenwald was praising Glawe, 49, for his flexible approach to problem solving.

Greenwald, 61, was referring to Glawe's advocacy of interest-based negotiating, in which each side seeks a



MICHAEL GLAWE

Head of the United pilots union

- ▶ When the ESOP ends in 2000, wants wages restored to preconcession levels
- ▶ Wants a further pay hike reflecting United's industry-leading status
- ▶ Believes the culture is changing too slowly; wants new workplace initiatives to improve morale

result beneficial to both. So when Greenwald took a take-it-or-leave-it attitude on the 10% wage hike, Glawe "was blindsided," says one pilot source. Still, knowing this was the most the pilots could get in arbitration, he sent the offer to a vote without endorsing it.

Now that the rift has been opened,

similarities between the two men keep them at odds. Acquaintances both are a bit distant—yet are very direct and expect their orders to be followed. For Glawe, that style flows from his upbringing as an Air Force brat. For Greenwald, it reflects 33 years calling the shots in the auto industry. Soon after Lee A. Iacocca joined Chrysler Corp. in 1978, he brought Greenwald to assemble a financial package to rescue Detroit's No. 3 carmaker. Back then, Greenwald struck a deal with United Auto Workers officials as arrogant, but they couldn't deny his candor. One bleak Wednesday, Chrysler coffers were empty, but by Friday he had the cash to pay 140,000 workers.

Neither man is an autocrat. Greenwald embraced "cockpit resource man-



GERALD GREENWALD

Chairman and CEO, United Airlines

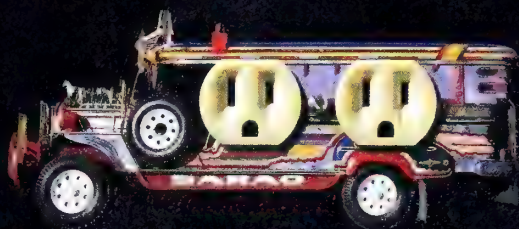
- ▶ Says that overall compensation should be "competitive"
- ▶ Would like some of the workers' compensation at risk through profit sharing
- ▶ Wants to see bottom-line results from the airline's efforts to create an employee-friendly culture

agement," which calls for captains to take their first and second officers on missions, when other United pilots are resisting it as a threat to their autonomy. And Greenwald prides himself on the time he spends listening to employees.

Both have seen what happens when management and labor are un-



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get along. After a four-year furlough brought on by recession, Glawe returned to flying for United just before a pilots' strike in 1985. "It created a tremendous amount of distrust and disharmony," he recalls. Greenwald had a conversion experience of another sort: His Chrysler rescue succeeded only because workers accepted wage concessions in return for a board seat and stock. But he learned then that "sometimes you'll take two steps forward and one step back," he says. Improving the culture of the company "took years at Chrysler."

HARDBALL. At United, conflicting expectations are part of the problem. Greenwald thought United's soaring stock price—up 170% since the buy-out—would assuage pilots' desire for a pay hike. He underestimated their resentment about cuts they took when the ESOP was negotiated, and he hurt their pride with his hardball tactics. For their part, the pilots expected to share in the spoils of United's two great years without much concern for investor reaction. Greenwald chooses to see such frustration as progress. "Two years ago, 75,000 employees of this company were worried about their jobs," he says. "Now, 84,000 employees are concerned, even upset, that they're not enjoying the full fruits of their labors."

Patching things up won't be easy. The pay dispute is in binding arbitration, with a ruling due on Apr. 30. But Glawe says he's worried about what will happen in 2000, after employees have received all their stock. Although the ESOP contract doesn't allow for wages to "snap back" to preconcession levels, pilots are demanding that their pay be restored. Greenwald says overall compensation—including the value of stock—should be "competitive." But the issues go beyond money. Glawe claims "there's a deep undercurrent of disaffection" about the pace of cultural change. "If we have to provide leadership," he says, "we can do that. That's what I trained for at West Point."

There are some positive signs. Greenwald is calling for a "culture convention" in early March to air grievances and find ways to make United more employee-friendly—a conciliatory response that surprises some on Wall Street. "I can't imagine what [American Airlines Chairman Robert L.] Crandall would say in this situation. It would be unprintable," says Dillon, Read & Co. analyst John V. Pincavage. Glawe, too, is sounding a positive note: "We have not abandoned the ESOP," he says. What Bob Crandall would do doesn't matter. It's Greenwald and Glawe who must find a way to put this suddenly troubled ESOP back together again.

By Susan Chandler in Rosemont, Ill.

The Corporation

STRATEGIES

THE \$9 BILLION COMPANY NOBODY KNOWS

Savvy deals push drug wholesaler Cardinal to the top rank



CEO WALTER: Keeping a breathless pace in acquisitions

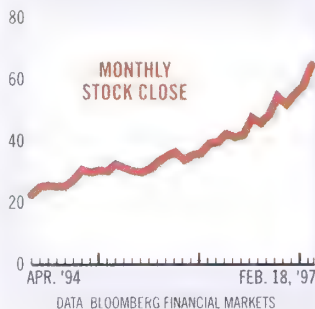
Cardinal Health Inc. Chief Executive Robert D. Walter has never liked working for others. After college, he got an engineering job with a unit of what is now Rockwell International Corp. in Columbus, Ohio. Frustrated with what he saw as bureaucracy, Walter lasted six months. "It was," he says, "the worst experience of my life." So he quit, went to Harvard business school, and decided to start an enterprise where he could to do things his way.

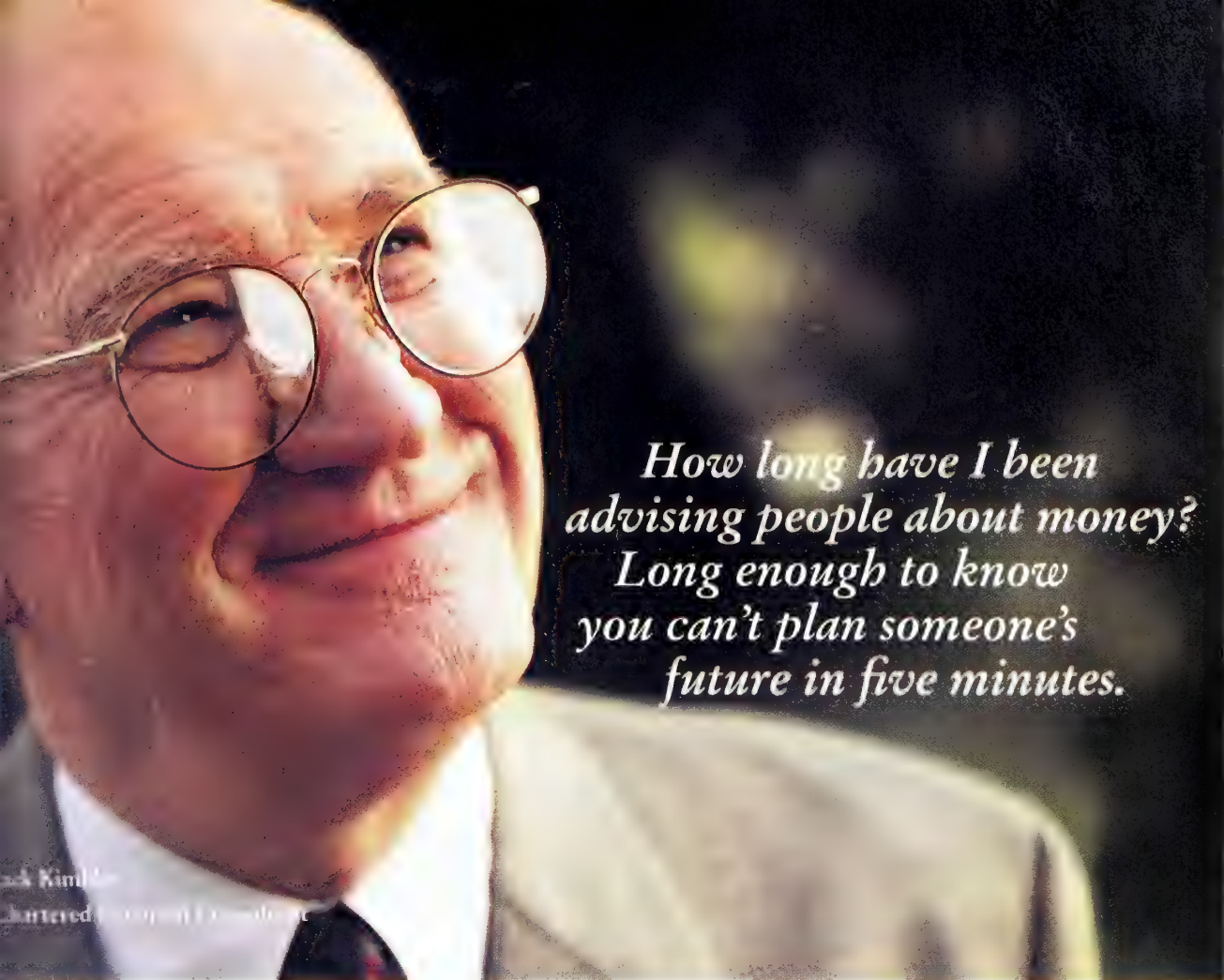
Twenty-seven years later, Walter, 51, has done what he set out to do—and more. Through savvy acquisitions, he has quietly catapulted once tiny drug wholesaler Cardinal Health into a race with longtime industry titans McKesson Corp. and Bergen Brunswig Corp. for the No. 1 spot. Indeed, he has been so successful that Cardinal's latest purchases—intended to fuel Walter's drive to make it the drug distributor of choice for hospitals and nursing homes nationwide—have drawn the atten-

tion of the Federal Trade Commis-

For all that, Cardinal is hardly a household name—unless you're in the drug business. Cardinal buys drugs in bulk and sells them to pharmacies, hospitals, and HMOs. It's not a glamorous business, but investors don't mind. From 1991 to 1996, sales for the fiscal year ended in June surged from \$1.2 billion to \$8.9 billion, and profits rose from \$17.4 million to \$159.7 million. That sent the Dublin, Ohio, company's adjusted stock soaring from 22 in April 1994, to about 63 today. "We wisely stock could make much money as Cardinal," gushes Willy Bales, an equity analyst at Denver's Janus Capital Corp., which owns nearly 10 million Cardinal shares. He thinks fiscal earnings could be as high as \$11 billion. Cardinal's success has all the more significance in this brutally competitive industry.

CARDINAL'S HEALTHY RETURNS





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march to managed care has pushed the health-care industry into a cost-cutting frenzy, and drug distribution is no exception. Individual pharmacies and small regional chains have long been wholesalers' most profitable customers, but as they have been swallowed up by national chains with more bargaining brawn, distributors have had to bulk up, too.

Those changes have shrunk the \$50 billion industry from 280 companies to 45 in the past 15 years; the top five players now control 75% of the market. Average gross margins have slumped to 6% from 11%. Even some big guns have fallen: FoxMeyer Drug Co., a unit of \$5.5 billion FoxMeyer Health Corp., declared bankruptcy last year following a price war and technical problems at a new distribution facility. Yet for those remaining, there is a silver lining: The industry is growing at a 20% rate. "The aging population is growing, and pharmaceuticals are a more efficient way of treating them," says Walter.

That explains why Walter—whose 5% stake in Cardinal is worth roughly \$296 million—is continuing his breathless dealmaking pace. Using mostly stock and cash, he has bought up a storm without diluting earnings; he has done five acquisitions in the past two years alone. Walter's strategy seems basic, but it has worked for him since 1979. That's when he sold a food business to get into drug wholesaling, which he saw as ripe for consolidation. The rules: Go slow, buy good companies, never do a hostile takeover, and keep the old management. Walter only considers those who are No. 1 or No. 2 in their regions and operate in some aspect of drug distribution. "We're not interested in research and development or manufacturing," he says.

The tight focus and sharp execution have helped Walter boost pretax operating margins to 3.1%, more than double the industry average. They have also brought effusive praise, even from rivals. "It is a top-notch company," says Robert E. McHugh, vice-president for industry affairs and investor relations at Malvern (Penn.)-based AmeriSource Health Corp., the No. 4 wholesaler. "We are continually in admiration of their ability to manage their company."

Cardinal's reach has won it impor-

tant new business. Last summer signed a \$9 billion, five-year contract to provide drugs for Kmart Corp.'s in-store pharmacies—the largest of its kind. Cardinal will now control Kmart's drug inventory. "This allowed us to get a quicker response to the customer," says Jerome J. Kuske, Kmart vice-president for general merchandise and manager for health, beauty and pharmacy. "We're very happy."

ANTITRUST TROUBLES? Yet Cardinal hardly afford to sit still. With many of the easy consolidation gains done, customers continuing to demand better deals on drugs, Walter is moving into higher-margin services. "Every business becomes commoditized over time," says. Last May, he spent \$962 million

**Walter's next
target: Make
Cardinal the
drug distributor
of choice
among hospitals**

stock to acquire Owens Corning, which makes hospital drug dispensers that operate much like automatic teller machines. Although Pyxis has 85% of the estimated \$1 billion market, its machines are currently used in only one-third of the country's 6,000 hospitals. And last November Cardinal moved its pharmacy management software with the announcement of its purchase of Hologic.

based Owen Healthcare Inc., which makes pharmacies at more than 300 hospitals. The match, say analysts, is a perfect one, since the acquisition gives Cardinal a foothold inside hospitals. Perhaps too great: The FTC has asked for more information, raising the specter of antitrust problems. That may be because Owen has its own automatic drug dispenser, called Meditrol—which, if Pyxis', could be anticompetitive. In the worst case, says Debra Hadley, Cardinal's director of investor relations, the FTC might make Cardinal sell Meditrol, which accounts for about 4% of Cardinal's sales. The FTC declined comment.

Another worry is the ever-changing health-care battlefield. While drug prices remain strong, any government push to use more generics as part of Medicare reform could further slice margins. Now, though, few will bet against Cardinal. "It's one of the best managed teams that I've ever met," says John Bales, "not only in the pharmaceutical business, but in any business." "I'd be up to praise like that isn't easy. Things could be worse."

By Peter Galuszka in Dublin

MASTER OF THE M&A UNIVERSE

When Volk has taken Shearman & Sterling to the top



In contrast with often hostile '80s players, he focuses on finding common ground

phone call arrived at midnight Friday, Jan. 31, just as Stephen Volk was preparing to go to On the line was Morgan Stanley General Counsel Jonathan M. who alerted the corporate lawyer the investment bank's landmark r with retail broker Dean Witter, er & Co. was on—and had to be up as fast as humanly possible. eason for the rush: rampant r- chat Morgan Stanley was cooking deal with PaineWebber Inc. While izz was wrong, reporters were g around furiously to see if any- was up.

t was bad news. A similar merger between Morgan Stanley and h brokerage firm S.G. Warburg PLC in 1994 unraveled in part e news leaked out before the pa- rk was signed. On Saturday, the r-old senior partner at New York's man & Sterling began a night- ay workathon. He sealed the deal a.m. Wednesday morning—a per- ce worthy of Carl Lewis.

as vintage Volk. As the merger of the mid-1990s surges ahead, is emerging as the legal profes- new Master of the Universe. Just adden, Arps, Slate, Meagher & s combative Joseph H. Flom was

the archetypal corporate lawyer of the 1980s, when deals were frequently hostile and heavily litigated, the wry, understated Volk is more in tune with the synergistic 1990s. A *cum laude* graduate of Harvard Law School, he is renowned for his ability to untangle knotty legal issues, navigate massive egos, and close difficult deals. "He is really a great adviser," says John F. Welch, chairman of

VOLK'S GREATEST HITS

Shearman & Sterling partner Steve Volk has built an M&A department that has participated in some of the biggest deals of the 1990s

MORGAN STANLEY		
DEAN WITTER, DISCOVER		1997
SANDOZ CIBA-GEIGY		
		1996
BRITISH TELECOMMUNICATIONS MCI		
		1996
BELL ATLANTIC NYNEX		
		1996
SEAGRAM MCA		
		1995
PHARMACIA UPJOHN		
		1995
VIACOM PARAMOUNT		
		1994
AMERICAN CYANAMID AMERICAN HOME PRODUCTS		
		1994

DATA: SECURITIES DATA CO.; SHEARMAN & STERLING

General Electric Co., who turned to Volk when subsidiary NBC acquired Financial News Network in 1991. "He listens better than anybody else [and] cuts to the chase very quickly."

Under the leadership of Volk, Shearman's M&A practice has finally caught up to Skadden and other 1980s New York powerhouses, such as Wachtell, Lipton, Rosen & Katz and Simpson Thacher & Bartlett. The firm played key roles in the two biggest U.S. deals

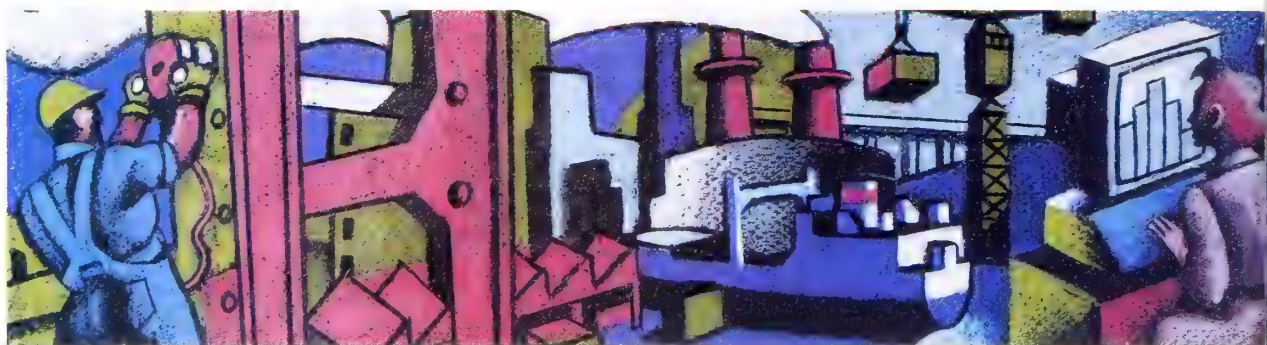
of last year: representing British Telecommunications in its \$21 billion combination with MCI Communications, and Bell Atlantic in its \$21 billion marriage with Nynex. Shearman also participated in last year's biggest merger outside the U.S., counseling Sandoz in its \$30 billion pairing with Ciba-Geigy. Worldwide, the firm handled 108 big deals in 1996—three more than second-place Skadden, according to Securities Data Co. In worldwide dollar volume, Shearman came in third.

CUSTOM FIT. Volk built his reputation by his performance in deals such as Seagram Co.'s acquisition of 80% of MCA from

Matsushita Electric Industrial. Because of tensions between owner Matsushita and MCA Chairman Lew R. Wasserman, Seagram couldn't gain access to MCA's internal paperwork until after the deal was signed. That worried Seagram President Edgar Bronfman Jr., whose senior executive vice-president, Stephen E. Banner, was too ill to help, and whose longtime outside law firm was recused from participating because of a conflict. According to participants on both sides of the table, Volk played an indispensable role in helping Bronfman address his concerns by devising an innovative contract provision that allowed Seagram to perform its due diligence after the paperwork was completed and back out if anything was seriously amiss.

Volk's conquest of the M&A world is all the more impressive given Shearman's history. Like many of New York's blue-blood firms, it disdained the confrontational and litigious M&A practice when Volk arrived in 1960. "I remember my senior partner once saying: 'Gentlemen don't sue gentlemen,'" he recalls. That attitude is long gone these days—and you can bet Shearman & Sterling's partners are happy that Volk helped bury it.

By Mike France in New York



A LAST-MINUTE BLAST KEEPS THE PARTY GOING

Yearend earnings—fueled by drugs, aerospace, and energy—pushed '96 profits up 14%

Remember those somber predictions about 1996 being the year corporate earnings would get a reality check? Well, try to forget 'em. In the year that profit growth was supposed to grind to a halt, it never stopped accelerating.

Earnings for the 900 companies on BUSINESS WEEK's Corporate Scoreboard blasted expectations. Helped by a 33%

fourth-quarter gain, corporate profits grew at a 14% pace, making 1996 the fifth straight year of double-digit returns. Sales rose 11% in the fourth quarter and 9% for the year.

COST-CUTTING. The strong finish is particularly impressive considering how the year began—with a quarter of flat profits and a sharp drop in capital-spending growth as interest-rate hikes kicked in.

But then the sun came out again. Consumer confidence grew, executives gained the assurance they needed to boost capital spending, and companies kept eking out cost-cutting gains. The shocking result: another good year. The strongest quarter for profit growth since the end of 1994. "The widespread earnings growth slowdown didn't happen," says Allen L. Sinai.

The Leaders in 1996 Sales and Profits

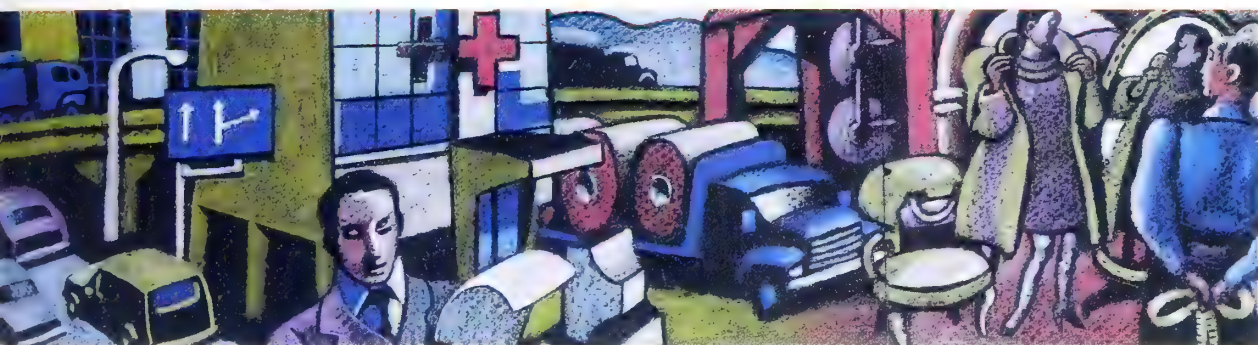
THE TOP 25 IN SALES

		1996 SALES IN MILLIONS	PERCENT CHANGE FROM 1995	1995 RANK
1	GENERAL MOTORS	\$164,069	2	1
2	FORD MOTOR	146,991	7	2
3	EXXON	119,660	9	3
4	WAL-MART STORES	101,553	13	4
5	MOBIL	80,782	7	6
6	GENERAL ELECTRIC	79,179	13	8
7	IBM	75,947	6	7
8	CHRYSLER	59,333	16	9
9	PHILIP MORRIS	54,553	3	10
10	AT&T	52,184	3	5
11	TEXACO	45,500	24	13
12	DUPONT	43,810	4	11
13	HEWLETT-PACKARD	38,420	22	17
14	SEARS, ROEBUCK	38,236	9	14
15	CHEVRON	37,580	20	12
16	PROCTER & GAMBLE	35,212	1	15
17	KMART	34,536	2	16
18	CITICORP	32,605	3	19
19	AMOCO	32,150	19	20
20	PEPSICO	31,645	5	18
21	MOTOROLA	27,973	3	21
22	CHASE MANHATTAN	27,421	4	NR
23	LOCKHEED MARTIN	26,875	18	25
24	KROGER	25,171	5	23
25	DAYTON HUDSON	25,154	11	28

THE TOP 25 IN EARNINGS

		1996 PROFITS IN MILLIONS	PERCENT CHANGE FROM 1995
1	EXXON	\$7,510	16
2	GENERAL ELECTRIC	7,280	11
3	PHILIP MORRIS	6,303	15
4	AT&T	5,608	75
5	IBM	5,429	30
6	INTEL	5,157	45
7	GENERAL MOTORS	4,953	-18
8	FORD MOTOR	4,446	7
9	MERCK	3,881	16
10	CITICORP	3,788	9
11	CHRYSLER	3,720	75
12	DUPONT	3,636	10
13	COCA-COLA	3,492	17
14	PROCTER & GAMBLE	3,237	14
15	MOBIL	2,964	25
16	WAL-MART STORES	2,903	3
17	JOHNSON & JOHNSON	2,887	20
18	BANKAMERICA	2,873	8
19	BELLSOUTH	2,863	83
20	BRISTOL-MYERS SQUIBB	2,850	57
21	AMOCO	2,834	52
22	GTE	2,798	9
23	FANNIE MAE	2,754	28
24	CHEVRON	2,607	180
25	HEWLETT-PACKARD	2,586	6

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE M. GRAW-HILL COMPANIES



economist at Primark Decision
ics, an economics consulting firm.
e, the fourth-quarter comparison
elped by the unusual number of
write-offs that hampered earnings
end of 1995. And the 14% growth
6 profits, while healthy, was the
t rise since 1991. BUSINESS WEEK
nists think double-digit gains will
der to achieve this year, as gross
tic product growth slows to a
pace from 1996's 3.4% and gener-
slight pickup in inflation.

if there is one signature element
boom, it's how much of it has
ealed by Corporate America. Prof-
its actually grew from 6% in 1995
% last year, and return on equity
3.8%. ROE has hit 16% or better
ght straight quarters. Corporate
made up about 9% of GDP last
up from 6.4% in 1990, says John
g, chief economist at Bear, Stearns
"We're looking at the highest share
porate profits in the overall econo-
nce the '60s," says Ryding. Still,
share will likely drop this year, as
start to climb and a strong dollar
to depress exports. "Something
lace has to give," says David M.
e, chief economist at Standard &
Corp.

SURPRISE. Leading the charge
3 was the energy industry, which
d \$11 billion more than it did in
Exxon surpassed General Motors
General Electric to become the
t-earning company in the U.S.,
annual profits rising 16%, to \$7.5
, from sales that grew 9%, to
billion. One reason for the boost:
up in crude-oil prices, thanks to
ectedly tight supplies (page 94).
s in the telecommunications sec-
so soared 116%, to \$10.1 billion.
uch of that gain came from AT&T,
had a stunning \$2 billion write-
in 1995.

g companies were another big
r last year, thanks to new-product
vals and an increased usage of
ation. Earnings in the sector rock-
8% in the fourth quarter and 28%

for the year. Says analyst Jack P. Lam-
berton of NatWest Securities Corp.:
"Health-care providers are increasingly
realizing that [drugs] significantly lower
overall health-care costs, and they are
utilizing more of them" in place of cost-
lier hospital stays. With two hot drugs—
cholesterol-fighter Pravachol and Glu-
cophage for diabetes—Bristol-Myers
Squibb Co. led the way. Its 1996 ear-
nings rose 57%, to \$2.9 billion, on a 9%
sales jump, to \$15.1 billion.

The aerospace industry made the
most radical turnaround, more than
doubling its 1995 profits and ending last
year \$4.7 billion in the black. That's
due to healthier airlines, which ordered
lots of new planes. Boeing Co. more
than doubled its commercial jets sold in
both 1995 and 1996, and it shows: 1996
profits nearly tripled, to \$1.1 billion, on
sales up 16%, to \$22.7 billion.

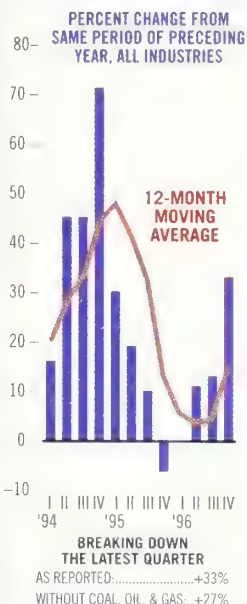
Wall Street's breathtaking 1996 bull

market had a huge impact on financial
services companies, whose profits
swelled by 32% last year. One standout:
Merrill Lynch & Co., which saw its
earnings rise 45% in 1996, to \$1.6 bil-
lion. And as the Internet stampede con-
tinues, software companies pulled in \$1
billion more in profit than they did in
1995. But the Internet wasn't the only
reason. "Why is the software industry
so strong?" asks analyst Michael K.
Kwatinetz at Deutsche Morgan Gren-
fell. "In a word: Microsoft." The com-
puter giant earned \$2.5 billion in 1996,
up 35%, on revenues rising 27%, to
\$9.4 billion.

SPLIT CHIPS. The high tide didn't lift all
boats. General Motors Corp.'s tardy roll-
out of its new line slowed sales. That—
plus two costly strikes—dropped profits
18%, to \$5 billion, and caused GM to fall
from its spot as the top-earning company
in 1995 to No. 7 last year. It wasn't be-

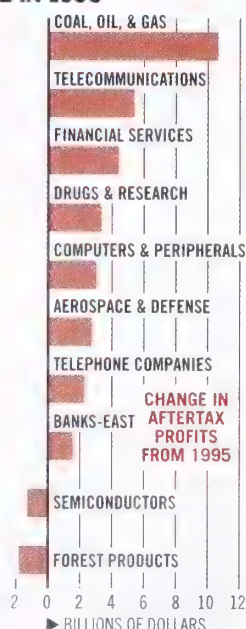
A Spotlight On 1996 Profits

AFTERTAX PROFITS, QUARTER BY QUARTER



INDUSTRIES WITH THE BIGGEST DOLLAR CHANGE IN 1996

Profits in 1996 went from the
ridiculous to the sublime.
Earnings started off flat in the
first quarter, but finished with
a 33% gain in the fourth.
Even with this late surge, the
14% earnings growth for
1996 was the lowest since
1991, when profits were down
19%. The 1996 numbers also
got a boost compared with
1995, when AT&T and a
number of the oil companies
took big write-offs. Take out
telecommunications and oil,
and overall profits were up
only 9%. Semiconductors
were among the losers this
year, with profits down 17%
in spite of Intel's 45% gain.



DATA: STANDARD & POOR'S COMPUSTAT

Corporate Scoreboard

cause of industry trends, either: Red-hot models such as the Jeep Grand Cherokee helped Chrysler Corp.'s earnings skyrocket 75%, to \$3.7 billion.

Semiconductors were another Jekyll and Hyde industry, though more Hyde than Jekyll. The group earned \$6.5 billion in 1996—\$1.3 billion less than in 1995—despite fourth-quarter earnings up 8%. Companies such as AMP Inc. and Micron Technology Inc., selling memory chips and other commodity products, hit the skids. That's because overly optimistic 1995 growth estimates froze chip ordering as companies tried to pare inventories. But Intel Corp.—which saw annual earnings increase 45%, to \$5.2 billion, and quarterly profits more than double, to \$1.9 billion—helped spe-



cialty chipmakers to a strong 1996.

In other sectors, there was plenty of pain. Nearly every basic industry—from forest products to metals—suffered double-digit earnings declines. Those industries face greater international competition and have been unable to raise prices. Still, since demand hasn't faltered significantly, economists say that their un-

derperformance doesn't signal a local recession.

Some problems for companies made the bad-news column all were expected: Apple Computer with its dwindling market share, nearly \$900 million in 1996. And America Online Inc.'s overzealous growth accounting changes helped it lose nearly \$500 million. Will these laggards be more common in 1997? Yes—if growth slows as expected. "1997 should be good, but not as good as 1996," says Primark's Sinai, who thinks profits will rise only about 10%. Of course, even predicted gloom last year. This is a profit runup that doesn't want to end.

By David Leonhardt in New York with bureau reports

HOW FAR WILL OIL PRICES FALL?

Executives who remember the havoc wrought by the oil-price shocks of the 1970s may have started to sweat in 1996. After floating under \$21 for three years, the spot price of West Texas Intermediate crude oil, a benchmark for U.S. prices, began to rise, hitting \$24 last fall. By December, it was flirting with \$26. Then, on Dec. 24, a short squeeze in the heating-oil futures market sent the price above \$28 a barrel—its highest level since the 1991 gulf war. The fear: High oil prices would raise inflation and lower economic growth, dealing corporate profits a double whammy.

False alarm. By mid-February, the spot price was back to around \$22 a barrel. And the outlook is for further price declines. DRI/McGraw-Hill predicts the price will fall to \$20.50 by December, 1997. With the worldwide supply pipeline filling up, prices could even hit the teens. The result: It now looks as though oil prices will help ease pressures on corporate profits in 1997, rather than hurt.

GROWING SUPPLY. That's because last year's jump in oil prices was a bit of a fluke. Many refiners were expecting prices to drop once the U.N. allowed Iraq to reenter the market. They kept inventories low, figuring it would be cheaper to wait and buy after prices had fallen. But the reentry was so well-anticipated that when it happened in December, prices barely dipped. That meant that understocked refiners had to scramble for

supplies, driving spot prices up.

This year, a projected 2.1% increase in worldwide demand for oil should be satisfied by Iraq's higher output and increased North Sea production. "Demand is growing at a healthy rate, but supply is growing even faster," says John H. Lichtblau, chairman of the New York-based Petroleum Industry Research Foundation Inc. Indeed, some oil analysts say that supplies could go up even more if Iraq is permitted to pump more under the oil-for-aid deal, which comes up for renewal by the U.N. in June. Of course, the U.N. might also cut off Iraq's supply "if they're bad boys again," says Theodore R. Eck, chief economist at Amoco Corp.

Last year's short-lived spike mainly hurt consumers, since it raised the cost of gasoline and home heating oil. The energy component of the consumer price index rose at an annual rate of 15% in December after turning negative during the summer. But it didn't last long enough to dent corporate profits. Even airlines, which are very sensitive to higher fuel prices, managed a 65% profits gain last year, partly because they had

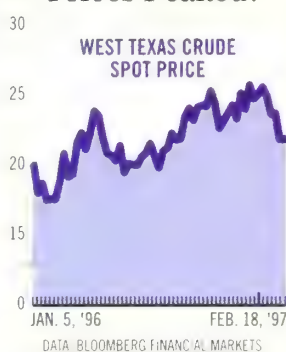
hedged against a price rise. Fuller planes also helped cushion the blow. The price jump was too brief to harm the tourism and auto industries or energy-intensive manufacturers, says DRI. In the coal, oil, and gas sector, where 1996 profits rose 69%, it was a welcome boon.

Lower oil prices should dampen inflation this year. By offsetting the impact of rising wages, they should

help keep the economy from overheating. Macroeconomic Advisers LLC, a St. Louis-based consulting firm, predicts that consumer prices should rise only about 2.8% in 1997, from 3.1% in 1996, if energy and food costs drop as expected.

Lower prices should also ease pressure on profit margins, since they will help balance out any wage hikes. Still, because oil prices did

Have Oil Prices Peaked?



cause much pain last year, they won't provide a huge kick to profits on the way back down. "Oil isn't as important as it used to be," says David A. Wyss, research director at DRI/McGraw-Hill.

The oil-price scare has gone as quickly as it came. That means on less risk for Corporate America's bottom line in 1997.

By Peter Coy in New York

Fourth Quarter & Full Year 1996

CORPORATE SCOREBOARD

ary

Includes all sales and operating revenues. For includes all operating es.

es: Net income before ordinary items. For banks,

profits are net income after security gains or losses.
MARGINS: Net income from continuing operations before extraordinary items as percent of sales.
RETURN ON COMMON EQUITY: Ratio of net income available

for common stockholders (most recent 12 months) to latest available common equity, which includes common stock, capital surplus, and retained earnings.
PRICE-EARNINGS RATIO: Based on Feb. 7, 1997, common-

stock price and corporate earnings from continuing operations before extraordinary items for most recent 12-month period.
EARNINGS PER SHARE: For most recent 12-month period. Includes all common-stock equivalents.

PANY

	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE- EARNINGS RATIO 2-7	12 MONTHS' EARNINGS PER SHARE
	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 %	4TH QUARTER 1995 %			
INDUSTRY COMPOSITE	1392518.0	11	5235366.5	9	81625.3	33	320124.1	14	5.9	4.9	16.8	21	2.44
AEROSPACE & DEFENSE													
INDUSTRY COMPOSITE	27902.2	20	99617.6	10	1256.4	NM	4687.0	142	4.5	NM	17.1	21	3.83
AL DYNAMICS	6512.0	43	22681.0	16	254.0	17	1095.0	179	3.9	4.8	11.1	34	3.19
STREAM AEROSPACE	896.0	0	3581.0	17	70.0	9	270.0	9	7.8	7.2	16.2	16	4.27
ED MARTIN	321.2	-2	1063.7	2	14.4	-24	47.0	63	4.5	5.8	NM	39	0.60
ED MARTIN	7662.0	27	26875.0	18	465.0	50	1347.0	98	6.1	5.1	20.7	13	6.80
WELL DOUGLAS	4091.0**	10	13834.0	-3	207.0	NM	788.0	NM	5.1	NM	26.1	19	3.64
OP GRUMMAN	2282.0	26	8071.0	18	17.0	-71	234.0	-7	0.7	3.2	11.1	18	4.33
TECHNOLOGIES	6138.0**	3	23512.0	3	229.0	22	906.0	21	3.7	3.1	20.4	21	3.45
AUTOMOTIVE													
INDUSTRY COMPOSITE	111219.8	5	431521.1	6	2734.5	-28	14445.7	-1	2.5	3.6	19.3	10	3.96
CARS & TRUCKS													
IP COMPOSITE	98150.3	5	380414.6	6	3050.5	-11	13385.0	5	3.1	3.7	21.2	8	4.64
ELER	15719.0	9	59333.0	16	998.0	-4	3720.0	75	6.4	7.2	32.1	7	5.03
MOTOR	38833.0	12	146991.0	7	1204.0	82	4446.0	7	3.1	1.9	16.4	9	3.72
AL MOTORS	40949.0**	-1	164068.9	2	786.0	-51	4953.0	-18	1.9	3.9	22.4	9	6.07
TAR INTERNATIONAL (2)	1441.0	-18	5705.0	-9	0.0	NM	65.0	-60	0.0	3.2	5.4	20	0.49
AR	1208.4**	10	4316.8	-6	62.5	-4	201.0	21	5.2	5.9	14.8	13	5.17
ARTS & EQUIPMENT													
IP COMPOSITE	9383.2	5	36374.4	7	59.5	-73	851.1	-22	0.6	2.5	11.4	19	1.67
INDUSTRIES	560.7	12	2212.7	13	18.8	154	47.1	163	3.4	1.5	11.4	11	2.09
WARNER AUTOMOTIVE	421.7	22	1540.1	16	-11.1	NM	41.8	-44	NM	6.5	6.6	23	1.77
INS ENGINE	1361.0	2	5257.0	0	41.0	-2	160.0	-29	3.0	3.2	12.8	13	4.01
INS ENGINE	1920.5	-6	7890.7	1	70.6	-11	306.0	6	3.7	3.9	21.4	11	3.01
IT DIESEL	505.2	-1	1962.9	-6	4.6	2	3.8	-91	0.9	0.9	1.2	NM	0.16
N (4)	846.0	19	3261.0	15	37.9	13	146.5	-6	4.5	4.7	14.1	13	2.38
AL-MOGUL	480.3	-1	2030.2	2	-220.2	NM	-211.1	NM	NM	NM	NM	NM	-6.26
ORP (1)	407.4	-9	1514.6	-15	23.4	234	41.7	9	5.7	1.6	74.9	16	1.24
WHEELS INTERNATIONAL (11)	234.4	49	697.9	15	4.7	-41	6.2	-80	2.0	5.1	24.5	NM	0.19
IE MFG. (9)	1719.0	19	6249.1	33	51.2	38	151.9	61	3.0	2.6	16.0	16	2.38
I (A.O.)	253.0	0	999.9	1	15.4	4	61.3	-9	6.1	5.9	16.4	14	2.02
ARD PRODUCTS (6)	407.4	2	1645.7	7	16.8	8	65.4	7	4.1	3.9	15.4	11	3.13
ARD PRODUCTS (6)	266.6	1	1112.6	8	6.3	310	30.6	749	2.4	0.6	11.9	12	1.82
IRE & RUBBER													
IP COMPOSITE	3686.3	1	14732.0	1	-375.5	NM	209.6	-71	NM	4.9	4.7	47	0.88
ER TIRE & RUBBER	416.3	9	1619.3	8	32.7	-4	107.9	-4	7.9	8.9	13.7	16	1.30
EAR TIRE & RUBBER	3270.0	0	13112.7	0	-408.2	NM	101.7	-83	NM	4.5	2.7	80	0.66

th quarter ended Nov. 30. (2) Fourth quarter ended Oct. 31. (3) First quarter and most recent 12 months ended Dec. 31. (4) First quarter and most recent 12 months ended Nov. 30. (5) First quarter and most recent 12 months ended Oct. 31. (6) Second quarter and most recent 12 months ended Dec. 31. (7) Second quarter and most recent 12 months ended Nov. 30. (8) Second quarter and most recent 12 months ended Oct. 31. (9) Third quarter and most recent 12 months ended Dec. 31. (10) Third quarter and most recent 12 months ended Nov. 30. (11) Third quarter and most recent 12 months ended Oct. 31. (12) Fourth quarter ended Jan. 31. *Sales include excise taxes. **Sales include other income. ***Sales include excise taxes and other income. †Revenues from major subsidiaries not included in consolidated sales. Earnings per share are for latest 12 months, not necessarily for end of most recent fiscal year; they include all common-stock equivalents but exclude extraordinary items. ‡Not available. NM = not meaningful.

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE MCGRAW-HILL COMPANIES.

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-7
	4TH QUARTER 1996 \$ MIL.	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995 %	4TH QUARTER 1996 \$ MIL.	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995 %	4TH QUARTER 1996 %	4TH QUARTER 1995 %		
3 BANKS												
INDUSTRY COMPOSITE	73288.0	9	281451.5	8	9486.9	19	35868.7	12	12.9	11.9	15.7	16
(A) BANKS - EAST												
GROUP COMPOSITE	34474.0	9	130237.7	6	4222.0	23	15033.9	12	12.2	10.9	16.2	17
BANK OF BOSTON	1589.6	3	6236.6	-3	201.5	12	650.2	-4	12.7	11.0	14.4	18
BANK OF NEW YORK	1290.0**	5	5600.0	8	250.0	4	1020.0	12	19.4	17.8	20.1	16
BANKERS TRUST NEW YORK	2181.0	18	8072.0	11	147.0	17	612.0	185	6.7	6.8	12.7	13
CHASE MANHATTAN	6995.0	3	27421.0	4	836.0	1	2461.0	-17	12.0	12.1	12.2	20
CITICORP	8554.0	6	32605.0	3	987.0	9	3788.0	9	11.5	11.2	19.8	16
CORESTATES FINANCIAL	1060.0**	-3	4197.3	-4	195.5	2	649.1	-1	18.4	17.6	16.1	17
FLEET FINANCIAL GROUP	2660.0**	31	8043.0	2	302.0	16	1139.0	10	11.4	12.8	17.0	14
MBNA	969.3**	35	3279.2	28	149.4	36	474.5	34	15.4	15.3	28.8	28
MELLON BANK	1268.0	8	4762.0	6	194.0	12	733.0	6	15.3	14.9	19.9	15
MORGAN (J.P.)	4246.0	17	15866.0	15	419.0	14	1574.0	21	9.9	10.1	14.4	14
PNC BANK	1612.2	22	6333.8	4	271.9	NM	992.2	143	16.9	NM	16.9	14
REPUBLIC NEW YORK	859.5**	17	3279.2	15	108.5	14	418.8	45	12.6	12.9	14.6	13
STATE STREET BOSTON	733.6**	14	2744.4	12	78.0	19	292.8	19	10.6	10.2	18.1	21
SUMMIT BANCORP.	455.8	4	1798.3	5	82.1	26	229.2	-6	18.0	14.8	11.8	19
(B) BANKS - MIDWEST												
GROUP COMPOSITE	15424.2	4	60656.2	6	2194.3	22	8666.6	15	14.2	12.1	17.1	15
BANC ONE	2721.6**	17	10272.4	15	370.0	10	1426.5	12	13.6	14.5	17.2	13
COMERICA	765.2	6	3069.7	-1	60.8	-43	417.2	1	7.9	13.1	17.3	17
FIFTH THIRD BANCORP	456.8	15	1753.2	19	93.6	20	335.1	16	20.5	19.7	15.6	24
FIRST BANK SYSTEM	890.0	6	3839.6	15	171.4	14	739.8	30	19.3	18.0	24.0	15
FIRST CHICAGO NBD	2429.0**	-11	10117.0	-5	377.0	199	1436.0	25	15.5	4.6	16.4	13
FIRST OF AMERICA BANK	539.2**	0	2082.9	3	84.0	27	256.9	9	15.6	12.3	14.6	14
FIRSTAR	464.3**	2	1823.5	4	73.6	3	250.2	9	15.9	15.8	15.3	17
HUNTINGTON BANCSHARES	449.3	0	1783.5	5	67.7	3	262.1	7	15.1	14.6	17.5	15
KEYCORP	1528.0	-3	6038.0	0	151.0	27	783.0	-1	9.9	13.1	15.6	16
MARSHALL & ILSLEY	387.2**	11	1459.9	9	61.9	18	203.4	5	16.0	15.0	15.8	19
MERCANTILE BANCORPORATION	421.8	4	1624.5	4	75.1	33	248.5	7	17.8	14.0	12.2	17
NATIONAL CITY	1232.6**	4	4820.2	4	191.1	48	736.6	25	15.5	10.9	16.5	14
NORTHERN TRUST	491.3**	7	1929.4	8	67.4	13	258.8	18	13.7	12.9	18.2	20
NORWEST	2346.3	12	8882.9	17	308.1	19	1153.9	21	13.1	12.4	19.3	16
OLD KENT FINANCIAL	301.6**	10	1159.5	8	41.6	33	158.7	12	13.8	11.5	16.1	14
(C) BANKS - SOUTH & SOUTHEAST												
GROUP COMPOSITE	13258.6	7	51966.3	10	1934.5	21	7184.8	13	14.6	12.9	16.1	15
BANPONCE	385.6	11	1479.3	16	47.7	18	185.2	27	12.4	11.6	15.8	13
BARNETT BANKS	667.8**	3	2697.0	8	149.8	8	564.5	6	22.4	21.3	16.9	16
CRESTAR FINANCIAL	470.3	1	1899.7	5	38.2	7	218.3	1	8.1	7.6	12.3	18
FIRST TENNESSEE NATIONAL	389.5	9	1467.4	12	53.3	17	179.9	9	13.7	12.8	19.4	15
FIRST UNION	3120.0	10	11985.0	13	460.0	37	1499.0	5	14.7	11.8	14.9	16
NATIONSBANK	4349.0	3	17509.0	7	632.0	24	2375.0	22	14.5	12.1	18.6	14
REGIONS FINANCIAL	411.8	11	1603.7	11	64.8	48	229.7	16	15.7	11.8	14.4	15
SOUTHERN NATIONAL	492.3	6	1904.0	5	79.7	10	283.7	52	16.2	15.6	17.1	15
SOUTHTRUST	527.7	23	1935.3	21	68.4	28	254.7	28	13.0	12.5	15.2	14
SUNTRUST BANKS	1053.5	10	4064.0	9	158.5	9	616.6	9	15.0	15.1	12.9	19
UNION PLANTERS	358.7**	9	1406.9	12	11.4	-68	133.7	-23	3.2	10.7	12.4	23
WACHOVIA	1032.4	5	4015.0	7	170.7	17	644.6	7	16.5	14.9	17.3	16
(D) BANKS - WEST & SOUTHWEST												
GROUP COMPOSITE	10131.3	18	38591.4	16	1136.1	-2	4983.3	9	11.2	13.5	12.1	18
BANCORP HAWAII	303.9	13	1153.1	11	34.5	7	133.1	9	11.3	11.9	12.5	14
BANKAMERICA	5737.0**	10	22071.0	8	747.0	6	2873.0	8	13.0	13.5	14.6	16
FIRST SECURITY	347.5**	11	1286.5	7	51.2	480	177.8	48	14.7	2.8	16.3	15
UNIONBANCAL	593.8	0	2352.7	4	59.8	-32	249.5	-20	10.1	14.8	10.3	13
U. S. BANCORP	773.1	6	3005.1	4	120.7	465	478.9	46	15.6	2.9	18.2	15
WELLS FARGO	2376.0	65	8723.0	61	123.0	-60	1071.0	4	5.2	21.2	7.4	25
4 CHEMICALS												
INDUSTRY COMPOSITE	37844.4	7	152031.1	3	1742.2	-29	11365.2	-9	4.6	6.9	22.3	17
AIR PRODUCTS & CHEMICALS (3)	1120.9	18	4181.9	7	99.9	12	426.9	15	8.9	9.4	16.6	20
ARCADIAN	379.0	24	1314.2	4	45.0	36	160.9	82	11.9	10.8	34.4	7
ARCO CHEMICAL	979.0	-1	3955.0	-8	64.0	-44	348.0	-32	6.5	11.6	17.2	13
CABOT (3)	398.8	-10	1812.0	-2	25.1	-42	175.8	-3	6.3	9.8	23.5	10
CROMPTON & KNOWLES	405.5	8	1804.0	3	2.0	NM	-22.1	NM	0.5	NM	NM	NM
CYTEC INDUSTRIES	315.3	7	1259.6	0	26.1	-88	100.1	65	8.3	72.7	31.8	19
DEXTER	267.8	-1	1100.2	1	11.4	31	48.7	20	4.3	3.2	13.0	15
DOW CHEMICAL	4903.0**	7	20053.0	-1	411.0	-1	1907.0	1	8.4	9.1	24.5	10
DUPONT	11407.0***	10	43810.0	4	858.0	37	3636.0	10	7.5	6.0	37.2	17
EASTMAN CHEMICAL	1113.0	-9	4782.0	-5	60.0	-50	380.0	-32	5.4	9.9	23.8	11
ENGELHARD	824.9**	18	3184.4	12	42.9	19	150.4	9	5.2	5.2	18.7	19
ETHYL	304.0	17	1149.7	20	25.4	13	93.0	26	8.4	8.7	21.6	12
FERRO	333.6	0	1355.7	2	13.9	19	54.6	11	4.2	3.5	14.9	16

CORPORATE SCOREBOARD

ANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE- EARNINGS RATIO 2-7	12 MONTHS' EARNINGS PER SHARE
	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 %	4TH QUARTER 1995 %			
RT-McMORAN	235.2	-11	957.5	-4	6.7	-92	45.1	-51	2.8	31.1	28.7	19	1.55
(H. B.) (1)	333.8	7	1275.7	3	12.3	95	45.4	46	3.7	2.0	14.0	15	3.22
	279.1	6	1144.4	-10	1.6	-64	12.2	-62	0.6	1.7	6.3	38	0.50
(W. R.)	863.0**	-8	3493.0	-3	-117.0	NM	213.8	NM	NM	NM	16.8	23	2.32
LAKES CHEMICAL	515.4	-9	2211.7	-6	37.8	-49	250.3	-15	7.3	13.2	16.8	11	3.94
(M. A.)	499.5	8	2066.2	9	14.7	22	59.2	4	2.9	2.6	11.6	16	1.29
LES	494.7	-10	2060.2	-15	75.7	-10	324.9	-2	15.3	15.3	35.9	15	3.04
OBAL (6)	665.4	-6	2941.1	0	48.5	-10	135.2	-38	7.3	7.6	10.2	25	1.44
NATIONAL FLAVORS & FRAGRANCES	324.0	4	1436.1	0	40.9	3	189.9	-24	12.6	12.8	17.2	27	1.71
OL	376.2	-5	1597.6	-4	28.8	116	169.8	12	7.6	3.4	20.7	12	2.80
ILL PETROCHEMICAL	1401.0	23	5052.0	2	52.0	93	126.0	-68	3.7	2.4	29.2	16	1.58
NTQ	2203.0	4	9262.0	3	-410.0	NM	385.0	-48	NM	3.8	9.3	59	0.64
N INTERNATIONAL (6)	950.6**	3	3742.8	7	88.1	-11	334.2	2	9.3	10.8	18.7	18	2.28
CHEMICAL	339.7	10	1303.5	7	40.4	16	145.9	8	11.9	11.3	21.9	19	1.99
USTRIES	234.0	0	986.1	-4	-10.3	NM	10.8	-87	NM	14.6	NM	57	0.21
	591.3	-7	2637.9	-1	145.4	457	287.6	114	24.6	4.1	28.8	7	5.52
R	1151.0	43	4449.0	41	96.0	45	282.0	8	8.3	8.2	14.7	27	1.77
& HAAS	965.0	5	3982.0	3	75.0	12	363.0	24	7.8	7.3	22.0	16	5.45
MAN (A.) (4)	257.8	3	985.0	-4	12.0	41	45.7	-7	4.6	3.4	10.5	17	1.21
INDUSTRIES	364.5**	3	2316.5	1	20.2	21	134.0	-18	5.5	4.7	22.7	7	1.72
CARBIDE†	1508.0	8	6106.0	4	102.0	-46	593.0	-36	6.8	13.6	27.5	11	4.28
	540.4	1	2263.3	14	-303.2	NM	-247.2	NM	NM	NM	-26.1	NM	-4.35

CONGLOMERATES

TRY COMPOSITE	44788.3	10	164619.0	9	3048.8	13	10973.1	11	6.8	6.6	20.4	23	3.07
ENY TELEDYNE	920.3	-5	3815.6	-6	64.9	25	226.5	-18	7.1	5.3	25.8	19	1.28
SIGNAL	3498.0	-8	13971.0	-3	270.0	16	1020.0	17	7.7	6.1	25.3	20	3.61
R INTERNATIONAL	664.6	15	2475.3	13	9.1	-9	36.1	-8	1.4	1.7	8.4	21	0.73
AL ELECTRIC	22994.0**	16	79178.9	13	2067.0	11	7280.0	11	9.0	9.4	24.3	24	4.40
URT GENERAL (2)	867.9**	11	3289.9	8	58.5	6	190.9	7	6.7	7.1	18.5	18	2.62
FFICE SOLUTIONS (3)	1140.4	27	4339.6	31	44.7	21	172.6	39	3.9	4.1	7.8	38	1.17
USTRIES	2231.2	-1	8718.2	-2	71.2	NM	222.6	960	3.2	NM	30.8	14	1.85
	463.7	-17	2018.1	-8	18.0	NM	64.5	767	3.9	NM	11.8	15	1.30
RK INTERNATIONAL	610.0	2	2267.6	2	32.0	48	56.7	-28	5.2	3.6	6.8	26	0.87
ELL INTERNATIONAL (3)	2608.0	9	9919.0	10	179.0	18	541.0	10	6.9	6.4	12.7	28	2.47
CO	1686.0	22	6572.0	26	-36.0	NM	218.0	-16	NM	1.2	14.6	30	1.28
ON	2428.0**	9	9274.0	10	128.0	16	482.0	16	5.3	4.9	15.6	17	5.60
INDUSTRIES (3)	2451.2	6	9857.2	3	110.0	4	182.4	-54	4.5	4.6	8.2	37	1.38
	527.0	14	2260.0	9	20.0	67	103.0	NM	3.8	2.6	19.2	17	1.97
	288.1	11	1190.8	-2	-4.7	NM	4.2	-93	NM	9.7	1.6	NM	0.04
	585.4	10	2360.5	14	-11.6	NM	33.3	10	NM	3.0	7.0	44	0.35
AN	824.5	4	3111.3	6	28.8	-15	139.4	4	3.5	4.3	21.6	18	1.31

CONSUMER PRODUCTS

TRY COMPOSITE	78020.3	7	294060.7	6	5029.4	18	21986.5	15	6.4	5.9	26.5	27	2.25
*PAREL													
P COMPOSITE	7028.3	18	26306.5	14	422.4	185	1455.5	67	6.0	2.5	21.1	24	2.21
I GROUP (11)	420.3	3	1514.8	5	12.9	33	22.7	NM	3.1	2.4	9.5	12	1.28
APPAREL GROUP	258.4**	40	1021.0	32	16.3	35	80.9	27	6.3	6.5	21.8	24	1.50
ODD (8)	429.4	1	1456.6	0	14.4	3	28.6	220	3.4	3.3	8.5	17	1.34
(*)	2107.0	55	7801.9	39	176.9	81	673.1	38	8.4	7.2	23.9	29	2.28
VEST GROUP (11)	442.5	13	1566.0	45	35.6	71	57.7	5	8.0	5.3	16.2	33	1.55
*S-VAN HEUSEN (11)	391.2	-13	1362.4	-5	15.0	NM	14.7	141	3.8	NM	5.2	24	0.54
(K) INTERNATIONAL	788.0	5	3478.6	0	20.1	NM	139.0	-16	2.6	0.2	41.5	24	2.00
LL	359.1	19	1244.2	8	29.2	77	81.6	51	8.1	5.5	12.3	16	2.11
	1377.1	8	5137.2	1	82.7	NM	299.5	90	6.0	NM	15.0	15	4.64
QINT STEVENS	455.0	8	1723.8	4	19.3	22	57.7	NM	4.2	3.8	NM	17	1.81
*PLIANCES & HOME FURNISHINGS													
P COMPOSITE	10394.5	6	40455.3	10	66.1	-25	735.3	-5	0.6	0.9	9.0	29	0.98
ONG WORLD INDUSTRIES	528.6	-5	2156.4	-7	53.7	NM	164.8	NM	10.2	NM	20.1	18	3.97
UY (10)	2007.3	4	7998.7	21	-11.0	NM	13.1	-77	NM	0.9	3.0	28	0.30
T CITY STORES (10)	1863.9	5	7499.5	12	19.8	-37	150.2	-17	1.1	1.8	13.3	22	1.52
URE BRANDS INTERNATIONAL	434.2	56	1696.8	58	17.4	18	54.2	58	4.0	5.3	12.9	17	0.86
UYS (3)	286.6	-7	905.6	-1	2.0	-71	-11.0	NM	0.7	2.2	-8.4	NM	-0.80
MEYERS (10)	413.5**	10	1455.0	10	9.5	8	32.6	-39	2.3	2.3	6.0	20	0.66
L INTERNATIONAL (6)	253.8	8	971.6	7	14.6	19	52.5	25	5.8	5.2	13.0	16	2.53
JY (8)	271.6	5	967.0	8	15.3	7	41.7	11	5.6	5.5	11.9	14	2.27
T & PLATT	626.4	16	2466.2	9	44.7	37	153.0	14	7.1	6.0	18.1	20	1.67
FURNITURE (9)	272.0**	1	960.7	-5	-2.0	NM	-28.1	NM	NM	NM	NM	NM	-0.94
'N THINGS	229.9	30	696.1	25	12.3	NM	15.0	NM	5.3	NM	6.0	30	0.78
G	772.9	12	3001.7	-1	35.3	113	138.0	NM	4.6	2.4	24.0	16	1.36
AM	268.9	-5	984.2	-3	-190.5	NM	-196.7	NM	NM	0.6	-49.8	NM	-2.37
POOL	2165.0**	3	8696.0	4	45.0	150	156.0	-25	2.1	0.9	8.2	25	2.08

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE- EARNINGS RATIO 2-7
	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 %	4TH QUARTER 1995 %		
(C) BEVERAGES												
GROUP COMPOSITE	19355.3	7	71690.5	6	1012.7	15	6087.8	6	5.2	4.9	30.6	38
ANHEUSER-BUSCH	2487.3	11	10883.7	5	150.0	NM	1156.1	30	6.0	NM	28.5	19
BROWN-FORMAN (8)	456.3	3	1572.0	5	55.4	4	162.0	3	12.1	12.0	23.8	18
CANANDAIGUA WINE (10)	317.7	11	1122.9	18	8.3	-20	14.7	64	2.6	3.6	8.9	37
COCA-COLA	4443.0	3	18546.0	3	762.0	18	3492.0	17	17.2	15.0	56.0	42
COCA-COLA ENTERPRISES	2118.0	29	7921.0	17	9.0	NM	114.0	39	0.4	NM	7.6	68
PEPSICO	9533.0	4	31645.0	5	28.0	-85	1149.0	-28	0.3	2.0	15.9	45
(D) PERSONAL CARE												
GROUP COMPOSITE	18793.7	5	69383.5	4	1560.8	1	5682.3	21	8.3	8.6	29.6	30
ALBERTO-CULVER (3)	426.1	23	1668.9	20	26.6	107	76.5	41	6.2	3.7	16.8	20
AVON PRODUCTS	1492.1	8	4814.2	7	132.0	14	317.9	11	8.8	8.4	222.0	26
CLOROX (6)	530.2	14	2353.6	13	43.9	16	234.8	12	8.3	8.1	24.1	26
COLGATE-PALMOLIVE	2297.4	7	8749.0	5	181.7	48	635.0	269	7.9	5.7	32.5	25
DIAL	349.7	-2	1406.4	3	16.5	266	29.9	NM	4.7	1.3	23.4	42
ESTEE LAUDER (6)	941.5	9	3314.9	7	69.9	19	178.1	26	7.4	6.8	31.8	37
GILLETTE	3001.0	10	9697.7	10	115.3	-67	948.7	-11	3.8	13.0	27.1	47
PROCTER & GAMBLE (6)	9142.0	1	35212.0	1	944.0	13	3237.0	14	10.3	9.2	26.6	27
REVLON	613.7	10	2167.0	12	30.9	713	24.4	NM	5.0	0.7	NM	70
(E) TOBACCO												
GROUP COMPOSITE	22448.6	7	86224.8	3	1967.4	22	8025.6	13	8.8	7.7	28.0	16
AMERICAN BRANDS	1617.4	9	5776.3	-2	114.0	-26	496.8	-9	7.0	10.4	13.8	18
DIMON (6)	771.3	1	2246.4	5	17.1	-7	47.7	NM	2.2	2.4	14.8	31
PHILIP MORRIS	13371.0	5	54553.0	3	1471.0	16	6303.0	15	11.0	10.0	44.3	16
RJR NABISCO HOLDINGS	4625.0	7	17063.0	7	215.0	389	611.0	-3	4.6	1.0	5.9	20
STANDARD COMMERCIAL (9)	374.1	-1	1336.3	-4	4.5	NM	17.9	NM	1.2	NM	20.9	11
UNIVERSAL (6)	1337.2**	29	3853.0	9	31.4	15	85.2	95	2.3	2.6	19.7	13
UST	352.5*	2	1396.8	5	114.5	3	464.0	8	32.5	32.1	145.9	13
7 CONTAINERS & PACKAGING												
INDUSTRY COMPOSITE	8565.4	6	34792.8	2	48.4	-88	972.8	-51	0.6	5.0	9.0	26
(A) GLASS, METAL & PLASTIC												
GROUP COMPOSITE	3427.1	38	14362.0	32	35.7	21	488.2	65	1.0	1.2	10.4	23
BALL	500.1	6	2184.4	7	-26.4	NM	13.1	-75	NM	0.6	1.3	73
CROWN CORK & SEAL	1964.9	76	8331.9	65	39.2	543	284.0	279	2.0	0.5	8.4	27
OWENS-ILLINOIS	962.1	8	3845.7	2	22.9	11	191.1	13	2.4	2.3	28.0	15
(B) PAPER												
GROUP COMPOSITE	5138.3	-8	20430.8	-13	12.7	-97	484.6	-71	0.2	6.6	8.0	30
BEMIS	434.9	9	1655.4	9	30.1	11	101.1	19	6.9	6.8	17.8	21
JEFFERSON SMURFIT	816.0	-16	3410.0	-17	15.0	-77	117.0	-53	1.8	6.7	NM	15
SONOCO PRODUCTS	725.6	6	2788.1	3	41.0	-3	170.9	4	5.6	6.2	21.0	15
STONE CONTAINER	1242.9	-24	5141.8	-30	-86.0	NM	-122.5	NM	NM	5.3	-16.7	NM
TEMPLE-INLAND	835.4	-4	3422.3	-1	18.3	-72	132.8	-53	2.2	7.5	6.6	23
UNION CAMP	1083.6	8	4013.2	-5	-5.7	NM	85.3	81	NM	8.3	4.0	40
8 DISCOUNT & FASHION RETAILING												
INDUSTRY COMPOSITE	111848.0	11	435756.6	12	3165.5	16	9783.1	-5	2.8	2.7	11.3	25
AMES DEPARTMENT STORES (11)	516.9**	3	2123.7	-1	0.4	NM	9.2	-49	0.1	NM	11.3	18
AUTOZONE (4)	569.1	23	2348.7	25	38.0	9	170.3	17	6.7	7.5	18.8	20
BARNES & NOBLE (11)	532.6	23	2288.2	24	-2.6	NM	-52.3	NM	NM	NM	-13.3	NM
BORDERS GROUP (11)	413.5	14	1901.3	16	-2.7	NM	-21.0	NM	NM	NM	-4.5	NM
BRADLEES (11)	407.9**	0	1700.8	-10	-23.1	NM	-268.5	NM	NM	NM	NM	NM
BURLINGTON COAT FACTORY (6)	740.0	12	1689.3	7	66.0	35	46.6	176	8.9	7.4	11.6	12
CALDOR (11)	568.6	4	2698.4	-2	-48.0	NM	-373.8	NM	NM	NM	NM	NM
CARSON PIRIE SCOTT (11)	266.2**	7	1092.8	-2	-1.2	NM	34.7	-57	NM	1.6	11.0	13
CDW COMPUTER CENTERS	262.2	46	927.9	48	10.7	71	34.4	72	4.1	3.5	26.4	38
CHARMING SHOPPES (11)	242.4	-9	1068.3	-5	-3.6	NM	-116.5	NM	NM	NM	-27.8	NM
CONSOLIDATED STORES (11)	616.5	72	2049.0	44	-3.0	NM	36.4	-39	NM	2.8	6.2	56
CORPORATE EXPRESS (10)	825.9	90	2574.9	78	7.1	-33	9.1	-69	0.9	2.4	1.4	NM
COSTCO (4)	4883.4**	11	20066.3	8	31.8	-36	231.1	6	0.7	1.1	12.6	23
DAYTON HUDSON (11)	6073.0**	9	25154.0	11	116.0	164	487.0	35	1.9	0.8	13.0	18
DILLARD DEPARTMENT STORES (11)	1543.3**	6	6393.2	8	31.6	-38	156.7	-39	2.0	3.5	6.0	21
DOLLAR GENERAL (11)	509.0	18	2034.6	20	26.6	39	102.1	25	5.2	4.5	23.0	28
EDISON BROTHERS STORES (11)	255.2	-20	1198.9	-15	-11.5	NM	-161.0	NM	NM	NM	NM	NM
FABRI-CENTERS OF AMERICA (11)	229.6	7	889.9	8	8.0	33	21.2	24	3.5	2.8	11.7	14
FAMILY DOLLAR STORES (4)	454.9	15	1773.3	12	17.4	20	63.4	11	3.8	3.7	13.9	20
FEDERATED DEPARTMENT STORES (11)	3609.1**	-4	15458.9	20	41.8	NM	221.5	NM	1.2	NM	5.1	31
FINGERHUT	742.5	0	2027.4	-2	31.5	4	40.2	21	4.2	4.1	7.3	17
GAP INC.	1383.0	20	5138.6	26	134.3	15	436.3	37	9.7	10.1	26.7	21
GLOBAL DIRECTMAIL	253.6	48	911.9	44	11.8	28	43.7	32	4.7	5.4	21.3	27
HECHINGER (11)	533.3	-3	2262.3	-1	-10.0	NM	-85.3	NM	NM	NM	-21.6	NM
HILLS STORES (11)	461.0	3	1919.6	2	-2.8	NM	-20.5	NM	NM	5.0	-7.7	NM
HOME DEPOT (11)	4921.8	23	18328.8	24	221.4	26	872.0	26	4.5	4.4	15.3	29
INTIMATE BRANDS (11)	597.0	18	2813.6	20	27.2	94	232.4	21	4.6	2.8	83.6	21

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-7
	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 %	4TH QUARTER 1995 %		
KMART (11)	7910.0**	-2	34536.0	2	9.0	NM	-364.0	NM	0.1	NM	-6.9	NM
KOHL'S (11)	598.1	23	2248.3	26	21.9	187	92.6	44	3.7	1.6	20.0	34
LANDS' END (11)	287.4	22	1094.9	8	6.2	249	39.3	37	2.1	0.7	20.1	24
LIMITED (11)	1995.0**	11	8449.9	10	159.5	-76	437.0	-56	8.0	36.5	25.2	13
LOWE'S (11)	2193.2	24	8255.4	20	75.2	71	274.7	17	3.4	2.5	12.7	20
MAY DEPARTMENT STORES (11)	2855.0**	11	11739.0	37	118.0	7	722.0	26	4.1	4.3	19.1	16
MERCANTILE STORES (11)	727.7**	5	3046.9	6	31.1	6	136.4	30	4.3	4.2	9.1	13
MEYER (FRED) (11)	835.1	12	3695.2	12	6.3	NM	49.7	149	0.8	NM	9.3	21
MICHAELS STORES (11)	322.2	3	1341.3	10	-34.2	NM	-37.3	NM	NM	1.0	-11.6	NM
NEIMAN MARCUS GROUP (5)	544.1**	11	2129.2	11	30.9	23	83.3	18	5.7	5.1	15.4	30
NORDSTROM (11)	1015.8**	8	4505.7	8	34.0	16	158.8	-12	3.4	3.1	10.9	19
OFFICEMAX (11)	859.8	27	3035.7	33	23.7	-73	67.5	-40	2.8	12.9	6.5	22
PAYLESS CASHWAYS (1)	710.0	5	2642.8	-1	5.6	NM	-19.1	NM	0.8	NM	-10.3	NM
PAYLESS SHOESOURCE (11)	576.8	-2	2362.4	3	29.4	14	60.2	-46	5.1	4.4	7.2	NA
PENNEY (J.C.) (11)	5936.0	8	22722.0	3	236.0	-2	797.0	-15	4.0	4.4	12.8	14
PEP BOYS-MANNY, MOE & JACK (11)	478.8	16	1794.6	18	27.8	30	96.7	19	5.8	5.2	12.9	21
PETSMART (11)	339.9	28	1264.2	23	11.2	NM	30.2	NM	3.3	0.0	9.5	75
PROFFITT'S (11)	379.8**	14	1416.5	8	9.9	43	0.3	NM	2.6	2.1	-0.3	NM
ROSS STORES (11)	403.4	22	1627.1	19	16.4	107	70.1	103	4.1	2.4	22.4	16
SAKS HOLDINGS (11)	476.3**	17	1885.5	NA	15.8	NM	18.1	NA	3.3	NM	3.8	69
SEARS, ROEBUCK	12042.0	11	38236.0	9	567.0	25	1271.0	24	4.7	4.2	27.8	17
SERVICE MERCHANTISE	1641.1	-3	3955.0	-2	78.2	-4	39.3	-22	4.8	4.8	9.2	10
SHOPKO STORES (10)	591.2	20	2199.0	12	10.9	8	41.7	15	1.9	2.1	9.6	12
SPORTS AUTHORITY (11)	293.1	25	1220.4	23	2.0	213	26.3	32	0.7	0.3	9.0	22
STAPLES (11)	1078.8	32	3779.2	37	31.9	45	94.4	57	3.0	2.7	13.6	34
TALBOTS (11)	247.5**	10	1014.5	7	19.8	2	60.4	4	8.0	8.6	14.4	17
TJX (11)	1722.4	100	6498.4	93	81.6	206	150.8	168	4.7	3.1	18.5	24
TOYS 'R' US (11)	1883.0	10	9870.1	9	33.3	60	137.5	-70	1.8	1.2	3.9	50
U. S. OFFICE PRODUCTS (8)	587.9	117	1414.5	105	13.1	99	20.0	56	2.2	2.4	5.7	42
VALUE CITY DEPARTMENT STORES (5)	271.4	22	1021.7	13	5.7	128	24.9	122	2.1	1.1	9.7	11
VENTURE STORES (11)	330.2**	-26	1597.3	-22	-9.2	NM	2.0	NM	NM	NM	-0.2	NM
VIKING OFFICE PRODUCTS (6)	316.5	26	1182.3	28	16.6	29	67.2	28	5.2	5.1	22.8	33
WABAN (11)	1064.2	10	4272.9	10	16.0	10	76.9	12	1.5	1.5	12.7	12
WAL-MART STORES (11)	25644.0	12	101553.0	12	684.0	12	2903.0	3	2.7	2.7	17.7	19
WOOLWORTH (11)	2048.0	-1	8161.0	-2	69.0	103	-38.0	NM	3.4	1.6	-3.0	NM
ZALE (5)	230.8	8	1153.9	10	-1.1	NM	42.7	19	NM	0.6	9.0	14

9 ELECTRICAL & ELECTRONICS

INDUSTRY COMPOSITE	51043.5	8	188755.7	9	3801.7	-2	12463.3	-17	7.4	8.2	14.3	30
(A) ELECTRICAL PRODUCTS												
GROUP COMPOSITE	11206.9	12	43381.9	14	542.0	12	1588.4	-24	4.8	4.8	10.2	36
COOPER INDUSTRIES	1338.3	5	5315.6	10	87.7	20	315.4	12	6.6	5.7	17.1	15
EATON	1724.0	4	6961.0	2	66.0	-27	349.0	-13	3.8	5.4	16.4	16
EMERSON ELECTRIC (3)	2830.6	10	11414.7	11	254.9	11	1042.9	12	9.0	9.0	19.0	22
GENERAL SIGNAL	546.7	9	2065.0	11	39.0	92	133.4	33	7.1	4.0	17.9	17
HUBBELL	331.1	17	1297.4	14	37.1	17	141.5	16	11.2	11.2	19.7	21
MAGNETEK (6)	293.7	4	1191.9	0	5.8	NM	-79.0	NM	2.0	NM	NM	NM
NATIONAL SERVICE INDUSTRIES (4)	511.9	4	2032.9	3	24.8	7	102.7	7	4.9	4.7	14.8	17
RAYCHEM (6)	441.0	7	1721.4	7	52.4	109	215.5	235	11.9	6.1	23.9	18
THOMAS & BETTS	501.6	14	1985.1	15	-30.8	NM	59.9	-32	NM	3.1	5.9	41
UCAR INTERNATIONAL	237.0	-3	948.0	5	37.0	19	145.0	480	15.6	12.7	NM	13
WESTINGHOUSE ELECTRIC	2451.0	31	8449.0	51	-32.0	NM	-838.0	NM	NM	NM	-51.7	NM
(B) ELECTRONICS												
GROUP COMPOSITE	19343.8	8	70765.1	7	820.5	-28	3670.5	-16	4.2	6.4	11.9	25
ANDREW (3)	231.7	30	847.3	23	24.3	44	97.8	31	10.5	9.5	20.2	35
GENERAL INSTRUMENT	736.6	14	2689.7	11	-17.1	NM	-1.9	NM	NM	8.3	-0.2	NM
HARRIS (6)	945.9	3	3717.2	6	45.5	13	188.1	14	4.8	4.4	12.7	16
HUGHES ELECTRONICS	4287.8	8	15744.1	7	280.9	-5	1151.2	4	6.6	7.4	12.8	21
INDUSTRIES (5)	1048.9	25	3824.2	14	39.8	9	154.0	10	3.8	4.4	16.1	14
ROLA	7685.0	5	27973.0	3	238.0	-45	1154.0	-35	3.1	5.9	9.8	35
COMM	388.9	165	1056.2	131	9.1	-10	20.0	-42	2.3	6.9	2.3	NM
ON	3367.0	0	12260.9	5	177.4	-20	761.2	-4	5.3	6.6	17.1	14
TR	330.1	44	1082.5	22	9.7	35	36.6	31	2.9	3.1	16.4	16
VAR. & ASSOCIATES (3)	322.0	-8	1570.1	-1	12.8	-50	109.3	-4	4.0	7.3	23.4	16
(C) INSTRUMENTS												
GROUP COMPOSITE	3451.9	6	12563.8	8	256.8	10	727.6	2	7.4	7.1	16.5	24
BECKMAN INSTRUMENTS	285.2	8	1028.0	11	23.3	114	74.7	53	8.2	4.1	18.7	16
HONEYWELL	2117.4	10	7311.6	9	153.2	22	402.7	21	7.2	6.6	19.3	23
PERKIN-ELMER (6)	330.8	12	1211.0	9	50.9	124	56.9	-24	15.4	7.7	16.1	56
TEKTRONIX	477.2	8	1841.5	11	26.5	1	99.8	6	5.5	5.9	13.9	16
TERADYNE	241.3	31	1171.6	-2	2.9	-94	93.6	-41	1.2	13.6	11.1	27

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COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-7
	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 %	4TH QUARTER 1995 %		
(D) SEMICONDUCTORS & OTHER COMPONENTS												
GROUP COMPOSITE	17040.8	7	62044.9	9	2182.5	8	6476.8	-17	12.8	12.7	17.8	32
ADAPTEC (9)	251.7	43	864.8	46	41.6	36	101.8	10	16.5	17.4	16.6	44
ADVANCED MICRO DEVICES	496.9	-17	1953.0	-21	-21.2	NM	-69.0	NM	NM	1.6	-3.4	NM
AMP	1403.0	8	5467.7	5	-40.0	NM	286.9	-33	NM	8.8	9.9	30
ANALOG DEVICES (2)	304.6	18	1193.8	27	44.0	25	171.9	44	14.5	13.7	19.9	27
ATMEL	281.1	40	1070.3	69	53.6	41	201.7	77	19.1	19.0	25.5	21
AVX (9)	289.6	4	1118.5	-5	30.1	-12	127.4	5	10.4	11.3	18.8	17
CIRRUS LOGIC (9)	253.3	-14	937.3	21	10.3	NM	-82.7	NM	4.1	NM	-18.2	NM
INTEL	6440.0	41	20847.0	29	1910.0	120	5157.0	45	29.7	18.9	34.5	27
LSI LOGIC	301.8	-14	1238.7	-2	30.7	-57	147.2	-38	10.2	20.5	11.2	30
MICRON TECHNOLOGY (4)	728.1	-39	3196.1	-11	20.6	-94	285.6	-72	2.8	27.7	11.3	25
MOLEX (6)	377.0	9	1436.6	7	40.2	15	151.4	9	10.7	10.2	12.9	25
NATIONAL SEMICONDUCTOR (7)	661.5	-7	2440.3	-8	29.5	-63	-146.0	NM	4.5	11.2	-10.6	NM
READ-RITE (3)	251.6	-16	943.5	-13	5.8	-86	-79.8	NM	2.3	14.2	-17.6	NM
SCI SYSTEMS (6)	1480.0	23	5365.0	52	29.6	34	98.3	58	2.0	1.8	19.6	17
SOLETRON (4)	807.7	17	2934.3	30	31.5	15	118.4	33	3.9	4.0	15.3	25
TEXAS INSTRUMENTS	2459.0	-22	9940.0	-13	-40.0	NM	-46.0	NM	NM	8.5	-1.1	NM
VISHAY INTERTECHNOLOGY	253.9	-15	1098.0	-10	6.3	-73	52.6	-43	2.5	7.9	5.6	28
10 FOOD												
INDUSTRY COMPOSITE	92140.8	5	346067.8	5	2587.2	32	8839.9	-3	2.8	2.3	19.4	26
(A) FOOD DISTRIBUTION												
GROUP COMPOSITE	11620.3	5	43347.2	6	143.9	3	536.3	1	1.2	1.3	15.0	19
INTERNATIONAL MULTIFOODS (10)	697.1	10	2592.9	3	8.6	27	17.9	-40	1.2	1.1	5.9	18
JP FOODSERVICE (6)	422.6	20	1466.5	16	4.7	22	14.2	5	1.1	1.1	11.0	34
PROSOURCE	1057.0	5	4125.0	19	-8.4	NM	-25.0	NM	NM	0.1	-73.4	NM
RICHHOLD HOLDINGS (8)	739.6	3	3259.4	4	12.6	28	44.2	6	1.7	1.4	19.6	24
RYKOFF-SEXTON (6)	882.4	NA	NA	NA	3.9	NA	NA	NA	0.4	NA	NA	NA
SMART & FINAL	306.4	8	1302.6	11	5.8	14	24.3	33	1.9	1.8	15.6	20
SUPERVALU (10)	3904.8	0	16509.6	0	40.2	5	170.8	6	1.0	1.0	13.5	12
SYSCO (6)	3610.3	9	14091.2	11	76.4	8	289.9	9	2.1	2.1	19.7	21
(B) FOOD PROCESSING												
GROUP COMPOSITE	41942.3	5	158819.2	6	1834.0	36	5927.7	-9	4.4	3.4	18.7	28
CAMPBELL SOUP (5)	2052.0	3	7740.0	5	88.0	-60	671.0	-7	4.3	11.0	40.7	31
CONAGRA (7)	6764.5	2	24924.3	1	187.3	12	218.1	-58	2.8	2.5	9.2	54
CPC INTERNATIONAL	2529.3	6	9844.3	17	156.0	33	580.0	13	6.2	4.9	29.2	20
DEAN FOODS (7)	775.7	10	2943.2	9	19.1	19	-42.4	NM	2.5	2.3	-8.0	NM
DOLE FOOD	891.1	6	3840.3	1	-27.5	NM	89.0	-26	NM	0.6	14.8	26
EARTHGRAINS (9)	522.7	0	1642.7	-1	9.2	NM	9.2	NM	1.7	NM	1.0	49
FLOWERS INDUSTRIES (6)	381.3	31	1382.4	17	12.3	55	47.2	14	3.2	2.7	14.6	26
GENERAL MILLS (7)	1560.1	8	5567.0	8	156.7	8	448.2	55	10.0	10.1	186.3	24
HEINZ (H.J.) (8)	2394.1	5	9332.5	7	177.5	12	683.7	9	7.4	6.9	25.3	23
HERSHEY FOODS	1189.1	6	3989.3	8	78.7	-26	273.2	-3	6.6	9.5	23.5	25
HORMEL FOODS (2)	877.8	5	3098.7	2	30.2	-22	79.4	-34	3.4	4.6	10.1	24
HUDSON FOODS (3)	391.3	15	1429.1	13	9.2	3	23.2	-33	2.4	2.6	6.9	27
IBP	3017.8	-5	12538.7	-1	18.3	-68	198.7	-29	0.6	1.8	16.5	11
INTERSTATE BAKERIES (7)	758.4	3	3184.2	70	26.2	331	57.6	180	3.5	0.8	11.6	30
KELLOGG	1557.7	-6	6676.6	-5	87.3	NM	531.0	8	5.6	NM	39.1	28
LANCASTER COLONY (6)	259.0	8	893.9	9	25.4	14	82.0	12	9.8	9.4	24.7	16
MCCORMICK (1)	537.4	6	1732.5	2	45.8	20	43.5	-50	8.5	7.5	9.7	46
NABISCO HOLDINGS	2483.0**	6	8889.0	7	110.0	NM	17.0	NM	4.4	NM	0.4	NM
PILGRIM'S PRIDE (3)	297.8	11	1169.6	20	10.1	NM	6.3	NM	3.4	NM	4.4	46
QUAKER OATS	1058.2	-10	5199.0	-13	18.1	NM	247.9	-66	1.7	NM	19.7	19
RALCORP HOLDINGS (3)	292.9	-1	1025.0	-1	13.1	-11	-48.4	NM	4.5	5.0	-45.1	NM
RALSTON PURINA (3)	1760.3	7	6235.3	-9	137.4	7	370.6	13	7.8	7.8	51.8	23
SARA LEE (6)	5269.0	8	19225.0	5	317.0	12	970.0	13	6.0	5.8	21.2	20
SAVANNAH FOODS & INDUSTRIES (3)	303.1	0	1145.0	2	9.1	158	12.5	NM	3.0	1.2	7.2	32
SENECA FOODS (9)	291.2	45	667.4	32	0.4	65	7.8	NM	0.1	0.1	8.4	12
SMITHFIELD FOODS (8)	969.2	113	3422.9	108	9.0	95	27.5	18	0.9	1.0	10.3	24
STARBUCKS (3)	239.1	41	766.1	48	14.4	50	47.0	74	6.0	5.6	10.4	62
THORN APPLE VALLEY (7)	259.1	3	1014.1	21	2.0	NM	-14.5	NM	0.8	NM	-18.1	NM
TYSON FOODS (3)	1527.9	-1	6434.9	12	44.6	3	88.2	-58	2.9	2.8	5.6	56
WLR FOODS (6)	264.4	-1	1015.6	5	-5.4	NM	-27.3	NM	NM	1.8	-18.9	NM
WRIGLEY (WM.) JR.	467.7**	5	1850.6	5	54.4	18	230.3	3	11.6	10.4	25.6	30
(C) FOOD RETAILING												
GROUP COMPOSITE	38578.3	5	143901.3	5	609.4	29	2375.9	14	1.6	1.4	23.1	23
ALBERTSON'S (11)	3375.8	9	13479.6	9	106.4	1	493.6	8	3.2	3.4	22.8	18
AMERICAN STORES (11)	4563.4	5	18859.0	6	75.8	12	344.7	6	1.7	1.5	13.8	18
BRUNO'S (11)	694.2	NA	NA	NA	-61.1	NA	NA	NA	NM	NA	NM	NA
CASEY'S GENERAL STORES (8)	287.7*	18	1037.1	15	8.9	1	27.8	9	3.1	3.6	12.5	18
DELCHAMPS (6)	272.6	-2	1127.2	4	0.2	-78	4.2	NM	0.1	0.3	3.7	35
DOMINICK'S SUPERMARKETS (2)	611.4	12	2512.0	NA	-3.7	NM	-0.6	NA	NM	NM	-6.0	NM
EAGLE FOOD CENTERS (11)	248.3	1	1037.0	4	0.5	NM	-3.6	NM	0.2	NM	-13.6	NM
FOOD LION	2772.7	9	9005.9	10	66.6	21	206.1	20	2.4	2.2	17.8	18

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-7	12 MONTHS' EARNINGS PER SHARE
	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 %	4TH QUARTER 1995 %			
FOOD (10)	897.0	3	3931.2	3	18.9	8	112.7	15	2.1	2.0	13.0	17	1.89
UNION (9)	537.2	-1	2317.3	NA	-31.7	NM	-135.4	NA	NM	NM	NM	NM	-13.65
ATLANTIC & PACIFIC TEA (10)	2318.8	1	10072.4	-1	14.1	82	75.5	102	0.6	0.3	8.7	16	1.98
FORD BROTHERS	764.7	12	2957.6	15	21.1	25	75.2	7	2.8	2.5	13.6	20	1.78
MARKETS (3)	381.1	7	1496.3	6	5.3	11	21.3	19	1.4	1.3	12.2	13	1.13
TRAFFIC (11)	6199.2	6	25170.9	5	125.5	15	352.7	11	2.0	1.9	NM	19	2.68
Y FOOD CENTERS	811.1**	-4	3429.3	-1	-15.9	NM	-62.8	NM	NM	NM	NM	NM	-5.78
	258.1	8	805.3	10	8.6	32	25.4	26	3.3	2.7	39.5	24	1.71
CK (3)	574.1	8	2186.9	7	11.6	44	46.3	19	2.0	1.5	13.0	15	1.00
AY	5486.9	6	17269.0	5	151.6	33	460.6	40	2.8	2.2	40.5	25	1.93
S FOOD & DRUG CENTERS	766.2	-4	2890.0	-6	7.8	NM	-122.4	NM	1.0	NM	NM	NM	-6.28
MARKETS GENERAL HOLDING (11)	973.9	-2	4065.9	-2	-3.9	NM	39.1	-3	NM	NM	NM	NA	NA
MARKETS	1264.2	3	5407.4	7	35.1	66	104.7	54	2.8	1.7	14.2	29	2.34
DIXIE STORES (6)	462.7	6	1753.2	6	20.1	-12	78.9	-1	4.4	5.2	9.8	16	1.87
	4057.2	2	13090.8	4	47.7	-34	232.0	-5	1.2	1.8	17.6	20	1.54

FUEL

STRY COMPOSITE	139298.2	24	503882.3	15	7309.2	185	27723.9	67	5.2	2.3	17.1	17	4.13
AL, OIL & GAS P COMPOSITE	132296.0	24	478673.0	14	6790.6	203	26052.4	69	5.1	2.1	17.4	16	4.33
DA HESS	2283.5**	8	8929.7	19	119.8	NM	660.1	NM	5.2	NM	20.6	8	7.09
	9132.0	31	32150.0	19	871.0	321	2834.0	52	9.5	3.0	17.9	15	5.69
	304.6**	56	977.2	30	51.2	499	121.4	501	16.8	4.4	8.2	25	1.42
ND (3)	3196.0	9	12561.0	9	36.0	-59	160.0	111	1.1	3.0	9.1	20	2.16
IC RICHFIELD	5129.0	28	18592.0	18	380.0	9	1663.0	21	7.4	8.7	22.3	13	10.18
NGTON RESOURCES	399.0	68	1293.0	48	110.0	378	255.0	NM	27.6	9.7	11.4	22	2.02
UM	9908.0	30	37580.0	20	464.0	NM	2607.0	180	4.7	NM	16.8	16	3.99
AL	3070.6	15	11894.6	14	293.0	163	500.2	85	9.5	4.2	17.0	10	4.54
	33735.0**	23	119660.0	9	2495.0	49	7510.0	16	7.4	6.1	17.4	17	6.02
McGEE	1075.6	25	4081.2	13	38.2	NM	153.2	47	3.6	NM	12.4	10	4.91
	518.5	25	1931.1	10	59.2	61	220.1	NM	11.4	8.9	16.3	15	4.44
	1031.4*	52	3353.1	17	42.3	100	130.2	103	4.1	3.1	21.2	15	2.27
LL ENERGY & DEVELOPMENT (11)†	245.4	41	966.1	17	18.9	88	20.0	-78	7.7	5.8	3.8	58	0.38
	22236.0**	10	80781.9	7	676.0	-13	2964.0	25	3.0	3.8	15.7	18	7.38
OIL	579.5**	42	2022.2	24	40.3	NM	126.0	NM	7.0	NM	10.9	18	2.80
ENTAL PETROLEUM	2792.0	13	10557.0	1	159.0	NM	698.0	37	5.7	0.3	16.2	14	1.86
ENERGY	358.0**	74	1147.0	2	63.0	425	163.0	3	17.6	5.8	NM	15	1.55
DIL	609.2**	0	2486.8	0	28.5	NM	133.9	NM	4.7	NM	13.8	21	2.88
PS PETROLEUM	4347.0	31	15731.0	18	200.0	83	1303.0	178	4.6	3.3	30.7	9	4.96
R STATE	309.6	19	1200.2	16	-5.9	NM	13.7	684	NM	NM	4.2	33	0.40
	3027.0***	24	11300.0	14	-224.0	NM	-281.0	NM	NM	0.0	-34.6	NM	-4.43
O PETROLEUM	240.2	5	975.4	1	42.6	271	76.7	34	17.7	5.0	29.4	4	2.90
G	12871.0**	33	45500.0	24	509.0	NM	2018.0	177	4.0	NM	19.9	14	7.52
	2762.5	48	9922.6	36	30.2	-11	146.3	90	1.1	1.8	13.9	26	3.49
AR DIAMOND SHAMROCK	2720.2*	31	10208.4	26	-118.9	NM	-35.9	NM	NM	1.4	-10.7	NM	-0.54
PACIFIC RESOURCES GROUP	566.3	60	1831.0	35	114.3	-18	320.8	-9	20.2	39.4	21.2	20	1.28
TEXAS PETROLEUM HOLDINGS	300.0	40	1008.0	18	40.0	67	152.0	49	13.3	11.2	29.6	12	1.75
L	1384.0**	19	5328.0	21	3.0	-91	456.0	83	0.2	2.8	18.5	24	1.76
ARATHON GROUP	4439.0*	26	16332.0	18	167.0	NM	671.0	NM	3.8	NM	20.8	12	2.33
ENERGY	1604.3	73	4990.7	56	18.8	45	72.7	22	1.2	1.4	5.7	23	1.40
R RESOURCES	1121.6	91	3381.8	70	69.1	80	220.0	114	6.2	6.5	95.0	15	2.26
PETROLEUM SERVICES P COMPOSITE	7002.2	26	25209.4	23	518.6	60	1671.5	40	7.4	5.8	13.6	29	2.40
HUGHES (3)	808.6	16	3141.7	15	50.4	55	194.3	52	6.2	4.7	11.5	27	1.35
VICES (3)	341.1	65	1099.9	53	20.0	118	51.3	259	5.9	4.4	6.1	30	1.41
URTON	1989.7**	25	7385.1	26	107.6	37	300.4	21	5.4	4.9	16.3	29	2.38
AFFILIATES	276.0**	55	887.2	82	29.0	NM	83.9	NM	10.5	NM	18.0	25	1.63
MBERGER	2515.7	22	8956.1	18	255.1	53	851.5	31	10.1	8.1	15.1	30	3.47
INTERNATIONAL	336.9**	41	1156.7	32	19.9	54	64.4	41	5.9	5.4	18.6	25	1.62
RN ATLAS	734.2	26	2582.8	16	36.6	35	125.7	26	5.0	4.7	8.4	27	2.31

HEALTH CARE

STRY COMPOSITE	74199.6	14	282062.6	13	6524.7	50	25844.5	23	8.8	6.7	24.8	27	2.39
UG DISTRIBUTION P COMPOSITE	20007.5	19	75264.8	14	196.1	59	1301.3	21	1.0	0.7	14.3	28	1.57
SOURCE HEALTH (3)	1746.9	36	6016.1	25	11.8	34	45.6	26	0.7	0.7	NM	26	1.94
N BRUNSWIG (3)	2822.1**	19	10387.5	18	18.2	16	76.1	15	0.6	0.7	13.1	16	1.89
AL HEALTH (6)	2688.8	23	9694.0	14	38.5	45	131.7	-13	1.4	1.2	12.0	46	1.34
	1549.9	14	5528.1	14	63.3	NM	239.6	NM	4.1	NM	14.4	22	2.12
D (11)	1280.4	10	5361.3	11	10.9	95	121.4	31	0.9	0.5	97.7	18	1.69
DRUG STORES (11)	666.9	6	2743.1	5	9.4	6	48.6	-6	1.4	1.4	9.2	20	1.23
SON (9)	3486.6**	35	12370.4	15	-84.3	NM	6.3	-95	NM	1.1	0.6	NM	0.23
D. S. (7)	1227.3	8	5280.9	7	16.0	39	86.7	24	1.3	1.0	9.7	32	1.29
ID (10)	1484.6	11	5744.0	7	37.4	15	162.3	5	2.5	2.5	14.0	21	1.94
REEN (4)	3054.0	13	12139.6	14	75.0	18	383.1	16	2.5	2.4	18.4	28	1.54

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE- EARNINGS RATIO 2-7
	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 %	4TH QUARTER 1995 %		
(B) DRUGS & RESEARCH												
GROUP COMPOSITE	24323.4	10	91508.6	10	4010.3	78	15470.4	28	16.5	10.2	31.4	27
ALLERGAN	311.8	3	1147.0	7	36.0	-9	*77.1	6	11.5	13.1	10.3	30
AMERICAN HOME PRODUCTS	3480.8	5	14088.3	5	511.6	527	1883.4	12	14.7	2.5	28.9	22
AMGEN	593.5	16	2239.8	15	178.0	22	679.8	26	30.0	28.4	35.7	24
BRISTOL-MYERS SQUIBB	3955.0	10	15065.0	9	716.0	NM	2850.0	57	18.1	NM	44.9	22
CHIRON	343.4	14	1210.8	19	15.3	-13	55.1	NM	4.4	5.8	7.2	60
GENENTECH	230.3**	4	968.7	6	7.5	-71	118.3	-19	3.2	11.6	6.7	57
LILLY (ELI)	2061.1	15	7346.6	9	373.0	20	1523.5	17	18.1	17.3	25.2	32
MERCK	5406.1	19	19828.7	19	1043.5	22	3881.3	16	19.3	18.8	34.1	29
PFIZER	3160.0	15	11306.0	13	504.0	24	1929.0	24	16.0	14.8	29.4	31
RHONE-POULENC RORER	1524.1	0	5420.6	2	177.0	20	473.5	20	11.6	9.7	18.8	23
SCHERING-PLOUGH	1414.3	10	5655.8	11	277.4	16	1212.8	15	19.6	18.5	54.1	23
WARNER-LAMBERT	1843.0	-1	7231.4	3	171.0	39	786.5	6	9.3	6.6	31.5	30
(C) HEALTH-CARE SERVICES												
GROUP COMPOSITE	15751.9	15	60593.9	19	711.1	13	2276.3	9	4.5	4.6	11.4	25
BEVERLY ENTERPRISES	835.2	3	3267.2	1	-1.5	NM	52.0	NM	NM	NM	6.0	29
COLUMBIA/HCA HEALTHCARE	5138.0	12	19909.0	13	414.0	17	1505.0	41	8.1	7.7	18.3	18
FHP INTERNATIONAL (6)	1108.3	9	4365.9	9	25.0	79	64.8	181	2.3	1.4	3.2	39
HORIZON/CMS HEALTHCARE (7)	444.3**	1	1768.9	3	7.4	-62	31.4	NM	1.7	4.4	4.8	22
HUMANA	1811.0**	22	6788.0	44	22.0	-55	12.0	-94	1.2	3.3	0.9	NM
LIVING CENTERS OF AMERICA (3)	280.2	4	1124.3	17	10.3	-5	42.6	50	3.7	4.0	12.5	14
MAGELLAN HEALTH SERVICES (3)	346.8	17	1396.4	18	7.1	-27	29.8	NM	2.1	3.3	24.4	25
MANOR CARE (7)	351.6	17	1362.5	24	24.0	16	71.6	-9	6.8	6.9	11.9	22
MEDPARTNERS	1267.8	31	4813.5	34	27.3	NM	-89.8	NM	2.2	NM	-13.2	NM
NOVACARE (6)	235.0	17	838.4	0	9.2	24	16.6	-71	3.9	3.7	3.5	41
ORNDA HEALTHCORP (4)	637.1**	29	2290.8	19	26.4	33	106.4	37	4.1	4.0	15.8	NA
PACIFICARE HEALTH SYSTEMS (3)	1247.5**	16	4854.5	21	31.8	14	75.7	35	2.5	2.6	8.8	33
PHYCOR	230.8	70	766.3	74	11.2	61	36.4	66	4.9	5.1	8.4	50
QUORUM HEALTH GROUP (6)	342.1	25	1229.7	25	20.1	19	75.4	21	5.9	6.2	16.7	19
TENET HEALTHCARE (7)	1476.1	8	5818.4	25	76.8	-58	246.4	-36	5.2	13.3	8.6	23
(D) MEDICAL PRODUCTS												
GROUP COMPOSITE	14116.8	11	54695.2	10	1607.2	19	6796.5	19	11.4	10.6	25.9	26
ABBOTT LABORATORIES	2995.8	15	11013.5	10	510.6	10	1882.0	11	17.0	17.9	39.9	23
BARD (C. R.)	314.2	8	1194.4	5	26.5	16	92.5	7	8.4	7.8	15.4	17
BAUSCH & LOMB	434.8	-4	1926.8	0	15.8	NM	83.1	-26	3.6	NM	9.4	25
BAXTER INTERNATIONAL	1494.0	10	5438.0	8	158.0	7	575.0	55	10.6	10.9	22.3	22
BECTON, DICKINSON (3)	655.8	2	2785.6	1	58.1	31	297.0	13	8.9	7.0	22.5	22
GUIDANT	270.8	9	1048.5	13	42.3	37	65.8	-35	15.6	12.4	15.9	64
JOHNSON & JOHNSON	5502.0	14	21620.0	15	556.0	20	2887.0	20	10.1	9.6	27.0	28
MALLINCKRODT (6)	571.1	8	2302.4	/	44.1	15	197.4	15	7.7	7.3	16.0	15
MEDTRONIC (8)	598.2	15	2324.3	18	128.3	25	490.2	36	21.5	19.8	24.3	32
OWENS & MINOR	753.6	1	3019.0	1	4.8	NM	13.0	NM	0.6	NM	6.2	42
STRYKER	243.4	9	910.1	4	30.8	20	104.5	20	12.7	11.5	20.5	27
U. S. SURGICAL	283.1	8	1112.7	9	31.8	61	109.1	38	11.2	7.5	8.5	31
13 HOUSING & REAL ESTATE												
INDUSTRY COMPOSITE	13228.8	11	50713.1	11	710.4	28	1812.7	-24	5.4	4.6	14.9	21
(A) BUILDING MATERIALS												
GROUP COMPOSITE	8087.3	9	32609.0	9	500.1	19	1331.7	-30	6.2	5.7	18.9	23
AMERICAN STANDARD	1436.6	10	5804.6	11	45.3	99	-46.7	NM	3.2	1.7	NM	NM
LAFARGE	448.4	22	1649.3	12	51.2	42	140.9	9	11.4	9.8	13.2	11
NORTEK	240.4	18	969.8	25	7.3	78	22.0	47	3.0	2.0	19.2	12
OWENS CORNING	1002.0	4	3832.0	6	70.0	6	-284.0	NM	7.0	6.8	NM	NM
PPG INDUSTRIES	1754.5	2	7218.1	2	152.1	6	744.0	-3	8.7	9.4	30.0	13
RPM (7)	316.1	12	1217.3	13	18.5	14	75.2	17	5.9	5.8	16.0	18
SHERWIN-WILLIAMS	958.8	29	4132.9	26	39.1	16	229.2	14	4.1	4.6	16.8	21
TECUMSEH PRODUCTS	388.8	2	1784.6	4	20.5	-15	112.6	-6	5.3	6.3	11.9	11
TEXAS INDUSTRIES (7)	237.6**	5	981.7	7	17.9	-17	79.2	24	7.5	8.5	17.9	8
USG	668.0	11	2590.0	6	13.0	NM	15.0	NM	1.9	NM	NM	NM
VALSPAR (2)	238.6	16	859.8	9	17.3	20	55.9	18	7.3	7.1	22.0	22
VULCAN MATERIALS	397.6	10	1568.9	7	47.8	10	188.6	13	12.0	12.0	21.5	11
(B) CONSTRUCTION & REAL ESTATE												
GROUP COMPOSITE	5141.5	12	18104.1	15	210.3	53	480.9	6	4.1	3.0	9.4	16
CELTIC (1)	939.1**	19	3658.2	19	27.5	81	93.3	101	2.9	1.9	12.1	12
CLAYTON HOMES (6)	234.7	11	973.1	16	26.7	17	113.8	19	11.4	10.8	16.8	15
FLEETWOOD ENTERPRISES (8)	748.8	6	2897.5	4	25.8	18	82.8	8	3.4	3.1	19.8	13
HOVNAVIAN ENTERPRISES (2)	342.0**	3	807.5	4	12.4	17	17.3	22	3.6	3.2	8.9	9
KAUFMAN & BROAD HOME (1)	520.8	9	1787.0	28	19.9	11	-61.2	NM	3.8	3.7	-19.4	NM
LENNAR (1)	376.3**	37	1181.2	36	28.6	43	88.0	25	7.6	7.3	12.7	11
M. D. C. HOLDINGS	252.3**	11	922.6	7	6.3	92	20.8	21	2.5	1.5	10.0	8

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE- EARNINGS RATIO 2-7	12 MONTHS EARNINGS PER SHARE
	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 %	4TH QUARTER 1995 %			
D GROUP	737.5**	10	2373.2	17	25.3	8	63.2	29	3.4	3.5	7.6	13	2.52
BROTHERS (2)	436.0	-3	1580.2	0	5.0	NM	15.8	NM	1.1	NM	4.5	15	0.87
(DEL) (6)	260.4**	30	760.7	18	22.1	30	53.7	8	8.5	8.5	17.1	12	1.56
	293.7**	23	1162.9	28	10.8	18	-6.6	NM	3.7	3.8	-2.5	NM	-0.36

LEISURE TIME INDUSTRIES

STRY COMPOSITE	28800.8	17	101390.6	16	1825.6	22	7087.4	13	6.3	6.1	13.7	25	1.82
ATING PLACES													
P COMPOSITE	5136.4	8	19476.0	7	450.6	44	1842.7	23	8.8	6.6	16.8	20	1.63
ER INTERNATIONAL (6)	310.9	7	1203.4	7	11.6	NM	60.4	50	3.7	NM	9.4	15	0.76
ER BARREL OLD COUNTRY STORE (5)	258.9	17	981.2	20	18.9	12	65.6	-2	7.3	7.6	11.2	26	1.08
N RESTAURANTS (7)	748.8	2	3178.9	-1	-11.2	NM	79.4	673	NM	2.2	6.5	15	0.50
AKER (3)	323.5**	-2	1055.7	0	9.0	92	24.4	204	2.8	1.4	47.5	18	0.62
MARRIOTT SERVICES	392.5	9	1277.7	10	0.9	NM	14.3	NM	0.2	NM	NM	26	0.40
WALD'S	2821.6	9	10686.5	9	410.0	12	1572.6	10	14.5	14.2	18.4	21	2.21
Y'S (2)	280.2	18	1092.7	4	11.4	NM	26.0	133	4.1	NM	NM	13	0.61
OTEL & MOTEL													
P COMPOSITE	6506.3	12	21613.5	10	212.0	-8	931.4	12	3.3	4.0	12.1	27	1.42
S CIRCUS ENTERPRISES (11)†	338.0**	-5	1353.3	8	34.8	-25	121.2	-2	10.3	13.2	10.1	30	1.18
H'S ENTERTAINMENT	374.6	-1	1588.1	2	-4.8	NM	98.9	25	NM	NM	13.2	21	0.95
H HOTELS	546.7**	19	1900.1	15	6.0	-91	156.3	-10	1.1	13.8	11.2	35	0.79
	1800.0	6	6600.0	5	66.0	-3	249.0	20	3.7	4.0	8.2	26	2.11
OTT INTERNATIONAL	3447.0	18	10172.0	14	110.0	22	306.0	24	3.2	3.1	23.9	24	2.24
OTHER LEISURE													
P COMPOSITE	17158.1	22	60301.2	22	1163.0	22	4313.3	10	6.8	6.8	13.0	27	2.05
CAN GREETINGS (10)	647.7	10	2098.2	7	74.6	327	159.1	41	11.5	3.0	12.1	14	2.12
SWICK	799.5	20	3160.3	9	29.1	30	185.8	39	3.6	3.4	15.5	14	1.88
VAL (1)	475.0	5	2212.6	11	114.8	36	566.3	26	24.2	18.6	19.3	18	1.95
Y (WALT) (3)	6278.0	64	21180.0	67	749.0	51	1467.0	5	11.9	12.9	9.1	35	2.13
AN KODAK	4314.0	5	15968.0	7	-113.0	NM	1011.0	-19	NM	6.7	20.9	30	3.00
Y-DAVIDSON	381.5**	2	1531.2	13	37.3	22	143.4	29	9.8	8.2	21.6	23	1.90
AN INTERNATIONAL INDUSTRIES (6)	401.3	15	1451.8	12	19.6	26	57.8	24	4.9	4.4	13.0	14	3.29
ID	1106.9	8	3002.4	5	99.1	16	199.9	29	9.0	8.3	12.1	18	2.27
IN	581.6	4	2278.2	1	-0.6	NM	-20.5	NM	NM	NM	-2.2	NM	-0.49
L	1190.5	3	3786.0	4	113.5	1	377.6	6	9.5	9.7	26.1	19	1.36
OID	663.4	-2	2275.2	2	13.0	NM	15.0	NM	2.0	NM	2.3	NM	0.32
CARIBBEAN CRUISES	318.5	10	1357.3	15	26.7	63	150.9	1	8.4	5.7	14.2	12	2.37

MANUFACTURING

STRY COMPOSITE	45469.8	10	173219.7	10	2625.3	11	10808.3	23	5.8	5.8	20.4	18	2.56
ENERAL MANUFACTURING													
P COMPOSITE	15956.5	14	61684.0	11	1083.2	36	4256.6	35	6.8	5.7	21.0	21	2.52
IT TECHSYSTEMS (9)	300.8	17	1239.9	19	16.2	39	66.9	NM	5.4	4.5	28.9	9	4.98
DENNISON	808.9	4	3222.5	3	47.7	27	175.9	22	5.9	4.9	21.1	23	1.68
SLE	277.5	28	1017.5	24	13.1	24	55.7	26	4.7	4.9	18.1	17	1.80
NG	999.0**	22	3684.5	12	91.3	30	342.9	NM	9.1	8.6	35.5	23	1.50
(9)	677.5	-6	2382.4	11	26.2	16	9.5	327	3.9	3.1	2.1	44	0.46
BRANDS (6)	280.0	6	1094.7	4	15.4	5	68.3	47	5.5	5.6	17.3	15	1.62
CO†	407.4	5	1557.6	4	29.5	2	119.0	22	7.2	7.5	17.5	15	4.78
ABRAND INDUSTRIES (1)	422.0	-1	1684.0	4	39.0	333	140.0	56	9.2	2.1	19.8	19	2.02
IS TOOL WORKS	1296.7	19	4996.7	20	134.3	26	486.3	25	10.4	9.7	20.3	21	3.93
ON CONTROLS (3)	2761.3	38	10584.4	25	54.9	21	242.6	21	2.0	2.3	15.7	16	5.58
IV INDUSTRIES (10)	580.9	11	2309.9	13	-28.6	NM	47.3	-47	NM	4.4	6.4	31	0.74
OSOTA MINING & MFG.	3623.0	10	14236.0	6	375.0	41	1516.0	16	10.4	8.0	24.1	23	3.63
LL	757.6	13	2872.8	15	81.0	22	256.5	15	10.7	9.9	18.1	21	1.62
ER HANNIFIN (6)	969.6	18	3851.9	12	52.6	9	237.6	-1	5.4	5.9	16.3	14	3.19
IS INDUSTRIES	297.7	5	1191.9	7	16.8	0	62.3	3	5.7	5.9	43.1	11	2.24
ERMAID	616.0	6	2355.0	0	19.9	NM	152.4	155	3.2	NM	15.0	24	1.01
VA	509.9	15	2032.9	8	24.5	22	102.7	8	4.8	4.5	23.0	11	3.51
ERWARE	370.7	-4	1369.3	1	74.4	0	174.7	2	20.1	19.3	69.1	17	2.76
ACHINE & HAND TOOLS													
P COMPOSITE	4024.7	5	14836.0	6	127.7	-53	598.2	-11	3.2	7.1	12.3	24	1.55
& DECKER	1454.8	1	4914.4	3	90.6	-34	159.2	-26	6.2	9.5	10.9	20	1.64
ANATI MILACRON	453.8	9	1729.7	5	19.9	-71	66.3	-37	4.4	16.3	15.6	14	1.73
ER	496.6	15	1811.9	22	34.9	19	128.0	21	7.0	6.8	17.0	22	2.13
AMETAL (6)	273.4	6	1114.5	6	14.6	5	72.0	-2	5.3	5.4	15.6	15	2.70
ON	409.2**	18	1485.3	15	36.5	18	131.5	16	8.9	8.9	15.9	17	2.16
	251.5	-3	1109.4	1	-65.8	NM	-55.6	NM	NM	NM	-32.0	NM	-3.98
EY WORKS	685.4	2	2670.8	2	-3.0	NM	96.9	64	NM	0.1	12.4	34	1.09

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-7
	4TH QUARTER 1996 \$ MIL.	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995 %	4TH QUARTER 1996 \$ MIL.	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995 %	4TH QUARTER 1996 %	4TH QUARTER 1995 %		
(C) SPECIAL MACHINERY												
GROUP COMPOSITE	22055.0	9	83181.8	11	1339.7	8	5430.3	18	6.1	6.1	21.8	15
AGCO	690.1**	19	2317.5	12	40.0	19	129.4	0	5.8	5.8	18.1	12
APPLIED MATERIALS (2)	861.0	-12	4144.8	35	73.1	-53	599.6	32	8.5	15.8	25.3	15
BRIGGS & STRATTON (6)	299.7	-9	1229.6	-3	16.7	-30	83.2	4	5.6	7.3	17.1	16
CASE	1524.0	19	5176.0	5	102.0	31	349.0	1	6.7	6.1	17.3	11
CATERPILLAR	4465.0	6	16522.0	3	381.0	27	1361.0	20	8.5	7.1	34.2	11
COLTEC INDUSTRIES	298.3	9	1159.7	5	21.7	76	54.6	58	7.3	4.5	NM	25
DEERE (2)	2918.6**	7	11229.4	9	173.9	15	817.3	16	6.0	5.5	23.0	13
DOVER	1044.0	3	4076.3	9	80.3	17	390.2	40	7.7	6.8	27.6	15
DRESSER INDUSTRIES (2)	1822.9	12	6533.2	16	85.4	1	257.5	21	4.7	5.2	16.3	22
FMC	1362.8	15	4969.4	12	44.6	78	218.1	2	3.3	2.1	26.4	12
HARNISCHFEGGER INDUSTRIES (2)	715.5	15	2887.6	32	19.8	-35	114.2	24	2.8	4.9	17.0	19
INGERSOLL-RAND	1740.3	7	6702.8	17	109.3	14	358.0	32	6.3	5.9	17.9	14
LAM RESEARCH (6)	236.6**	-17	1225.0	21	2.5	-93	90.2	-24	1.1	11.8	14.5	12
MCDERMOTT INTERNATIONAL (9)	744.7	-3	3307.8	2	16.6	152	-7.5	NM	2.2	0.9	-2.5	NM
PENTAIR	426.9	13	1567.1	12	22.3	24	74.5	23	5.2	4.8	13.9	17
STEWART & STEVENSON SERVICES (11)	336.8	4	1098.4	-10	7.2	-52	20.1	-70	2.1	4.6	4.3	41
TIMKEN	615.8	11	2394.8	7	39.0	40	138.9	24	6.3	5.0	15.1	12
TYCO INTERNATIONAL (6)	1612.9	30	5721.8	18	91.3	29	348.1	28	5.7	5.7	16.3	25
U. S. FILTER (9)	339.3	82	918.8	54	13.1	87	33.8	64	3.9	3.8	8.5	53
(D) TEXTILES												
GROUP COMPOSITE	3433.6	7	13518.0	5	74.6	9	523.2	44	2.2	2.1	17.3	14
BURLINGTON INDUSTRIES (3)	476.5	-7	2146.1	-3	9.4	11	42.5	-34	2.0	1.7	6.9	19
COLLINS & AIKMAN (11)	371.0	24	1391.5	15	13.7	-24	207.9	169	3.7	6.1	NM	3
FIELDCREST CANNON	279.5	-2	1092.5	0	2.3	NM	1.1	NM	0.8	NM	-1.6	NM
MOHAWK INDUSTRIES	465.6	12	1795.1	9	12.5	NM	49.1	665	2.7	NM	14.7	18
SHAW INDUSTRIES	876.0	24	3201.0	12	-2.7	NM	34.0	-47	NM	2.7	5.1	56
SPRINGS INDUSTRIES	545.6	-8	2243.3	0	10.5	-60	88.4	23	1.9	4.4	11.3	10
UNIFI (6)	419.3	4	1648.5	3	28.8	19	100.2	4	6.9	6.0	17.8	21
16 METALS & MINING												
INDUSTRY COMPOSITE	18588.2	2	73202.3	0	214.2	-78	2155.5	-45	1.2	5.3	8.5	23
(A) ALUMINUM												
GROUP COMPOSITE	6850.5	-2	27926.1	2	147.8	-54	900.0	-41	2.2	4.6	9.9	22
ALUMAX	696.2	-6	3159.3	8	19.1	-57	250.0	5	2.7	6.1	14.8	7
ALUMINUM CO. OF AMERICA	3257.7	5	13061.0	5	136.1	-10	514.9	-35	4.2	4.9	11.9	23
KAISER ALUMINUM	538.4	-9	2190.5	-2	-3.3	NM	8.2	-86	NM	3.6	-0.3	NM
MAXXAM	622.2	-8	2543.3	-1	-5.1	NM	22.9	-60	NM	3.3	NM	20
REYNOLDS METALS	1736.0	-7	6972.0	-3	1.0	-99	104.0	-73	0.1	4.5	2.6	58
(B) STEEL												
GROUP COMPOSITE	9121.9	3	35898.2	0	-86.9	NM	440.1	-63	NM	3.1	4.0	37
AK STEEL HOLDING	608.2	15	2301.8	2	30.7	-44	145.9	-46	5.0	10.4	17.4	8
ARMCO	413.6	4	1724.0	11	13.2	NM	26.0	11	3.2	NM	NM	56
BETHLEHEM STEEL	1149.0	0	4679.0	-4	-346.5	NM	-308.8	NM	NM	2.8	-28.3	NM
COMMERCIAL METALS (4)	531.0**	-10	2263.1	-1	9.2	-15	44.4	4	1.7	1.8	12.9	10
INLAND STEEL INDUSTRIES	1122.2	0	4584.1	-4	0.8	-97	69.0	-53	0.1	2.2	7.3	15
LTV	1017.4	-3	4134.5	-3	34.5	-1	109.2	-44	3.4	3.3	7.2	12
NATIONAL STEEL	766.5	4	2954.0	0	25.5	72	44.6	-58	3.3	2.0	6.3	12
QUANEX (2)	263.1	15	895.7	1	11.6	18	32.9	-3	4.4	4.3	16.9	11
ROUGE STEEL	318.1	4	1307.4	8	-8.5	NM	23.4	-75	NM	3.2	5.6	17
USX-U. S. STEEL GROUP	1765.0	7	6547.0	1	127.0	105	275.0	-9	7.2	3.8	17.4	11
WALTER INDUSTRIES (7)	397.9	5	1494.9	0	7.5	NM	-60.7	NM	1.9	NM	-20.6	NM
WEIRTON STEEL	340.6	1	1383.3	2	-12.4	NM	-44.5	NM	NM	0.8	-22.4	NM
WORTHINGTON INDUSTRIES (7)	429.3	21	1629.4	12	20.5	-22	83.8	-24	4.8	7.4	12.4	21
(C) OTHER METALS												
GROUP COMPOSITE	2615.8	7	9378.0	-4	153.3	-58	815.3	-30	5.9	14.9	12.8	18
CYPRUS AMAX MINERALS	753.0	2	2843.0	-11	-52.0	NM	77.0	-38	NM	13.0	2.4	35
FREEMONT-MCMORAN COPPER & GOLD	617.6	16	1905.0	4	87.8	29	226.2	-11	14.2	12.7	56.9	32
PHELPS DODGE	970.6	-8	3786.6	-10	102.2	-46	461.8	-38	10.5	18.1	16.8	10
PRECISION CASTPARTS (9)	274.6	115	843.4	62	15.3	30	50.3	30	5.6	9.2	15.3	21
17 NONBANK FINANCIAL												
INDUSTRY COMPOSITE	94079.3	14	357341.8	11	8218.3	24	30526.2	19	8.7	8.0	15.1	16
(A) FINANCIAL SERVICES												
GROUP COMPOSITE	47054.2	18	178920.5	15	4931.1	32	18887.7	32	10.5	9.4	21.1	15
ALEX. BROWN	264.4**	7	1059.4	31	37.3	12	154.1	61	14.1	13.5	25.4	9
AMERICAN EXPRESS	4255.0**	5	16237.0	3	594.0	54	1901.0	22	14.0	9.5	22.3	17
ASSOCIATES FIRST CAPITAL	1892.6	18	7098.2	16	234.3	20	857.0	19	12.4	12.2	15.8	19
BEAR STEARNS (6)	1556.5	31	5492.0	25	176.5	68	576.6	55	11.3	8.8	23.5	8
BENEFICIAL	456.1**	6	1959.1	24	23.3	238	281.0	87	5.1	1.6	17.6	14
BLOCK (H&R) (8)	252.2	15	1699.8	18	-74.1	NM	53.9	-50	NM	NM	6.2	62
CAPITAL ONE FINANCIAL	416.3	45	1423.9	41	40.3	6	155.3	23	9.7	13.2	21.0	18
COUNTRYWIDE CREDIT INDUSTRIES (10)	557.5	23	1539.3	9	65.9	25	246.7	57	11.8	11.7	16.2	13

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12/31	PRICE-EARNINGS RATIO 2-7	12 MONTHS' EARNINGS PER SHARE
	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 %	4TH QUARTER 1995 %			
BITTNER, DISCOVER	1614.9**	13	6230.1	10	227.8	28	951.4	11	14.1	12.4	19.1	15	2.79
BRIDGESTON, LUFKIN & JENRETTE	952.6	19	3490.8	27	73.1	27	291.3	63	7.7	7.2	19.7	9	4.55
BRIDGESTON (A.G.) (10)	404.5	12	1645.3	23	51.0	19	208.6	36	12.6	11.9	17.4	12	3.21
BRIDGESTON (A.G.) (10)	487.6	16	1811.2	12	53.8	21	177.6	20	11.0	10.6	48.9	26	1.22
BRIDGESTON (A.G.) (10)	6526.5**	11	25053.9	13	712.6	74	2753.6	28	10.9	7.0	24.7	16	2.50
BRIDGESTON (A.G.) (10)	3217.0	25	12032.0	27	321.0	10	1258.0	15	10.0	11.3	20.3	19	1.67
BRIDGESTON (A.G.) (10)	425.5**	17	1597.6	28	11.8	20	53.6	606	2.8	2.7	15.9	9	4.68
BRIDGESTON (A.G.) (10)	440.0**	28	1620.0	16	96.2	30	337.0	21	21.9	21.6	24.1	22	2.69
BRIDGESTON (A.G.) (10)	340.2	33	924.1	30	81.4	17	308.7	22	23.9	27.2	24.7	18	2.20
BRIDGESTON (A.G.) (10)	1334.5	7	5058.8	-2	163.6	24	538.6	19	12.3	10.6	18.7	19	5.30
BRIDGESTON (A.G.) (10)	1068.0**	21	3444.0	12	127.0	87	416.0	72	11.9	7.7	11.7	10	3.24
BRIDGESTON (A.G.) (10)	1052.5	10	4149.0	10	98.4	16	459.3	14	9.4	8.9	26.4	18	6.34
BRIDGESTON (A.G.) (10)	6601.0**	25	25011.0	16	445.0	47	1619.0	45	6.7	5.7	26.2	11	8.20
BRIDGESTON (A.G.) (10)	3127.0	16	13144.0	NA	236.0	26	1029.0	NA	7.5	6.9	20.3	11	6.27
BRIDGESTON (A.G.) (10)	1469.5**	7	5706.0	7	91.5	56	364.4	351	6.2	4.3	21.3	10	3.59
BRIDGESTON (A.G.) (10)	905.3	-9	3590.1	-10	112.3	4	424.2	14	12.4	10.8	51.5	15	7.41
BRIDGESTON (A.G.) (10)	1054.0**	28	4282.0	36	228.0	36	907.0	98	21.6	20.3	19.2	7	7.88
BRIDGESTON (A.G.) (10)	600.5	22	2276.8	28	59.7	40	233.8	35	9.9	8.7	28.7	29	1.30
BRIDGESTON (A.G.) (10)	5782.3**	36	21345.3	21	643.3	6	2331.0	27	11.1	14.2	19.0	15	3.50
INSURANCE													
ALLSTATE	43362.2	11	164141.9	8	2977.7	11	10564.3	4	6.9	6.9	10.6	17	3.36
ALLSTATE	4489.9**	33	15163.2	16	-107.1	NM	205.1	-57	NM	4.4	1.8	57	1.36
ALLSTATE	1792.7	3	7039.9	-2	133.7	61	394.4	13	7.5	4.8	19.4	15	2.73
ALLSTATE	6057.0	4	24299.0	7	595.0	50	2075.0	9	9.8	6.8	16.3	14	4.63
ALLSTATE	367.7	0	1529.0	12	26.2	16	94.5	31	7.1	6.2	16.2	13	4.39
ALLSTATE	1730.0**	3	6887.0	6	68.0	656	577.0	6	3.9	0.5	10.9	15	2.75
ALLSTATE	495.9	6	1984.0	-2	52.6	42	169.7	-5	10.6	7.9	13.4	9	3.03
ALLSTATE	1069.4	20	3888.2	12	85.7	33	350.8	16	8.0	7.2	11.5	21	3.02
ALLSTATE	4889.0**	2	18950.0	0	306.0	9	1056.0	400	6.3	5.9	15.1	11	13.85
ALLSTATE	459.2	10	1808.7	9	63.0	25	223.8	-2	13.7	12.0	7.1	16	3.92
ALLSTATE	2241.2**	15	8304.9	14	-124.1	NM	206.0	-44	NM	4.0	4.8	30	0.93
ALLSTATE	2220.8	9	8192.1	15	248.1	8	893.1	8	11.2	11.3	12.0	15	11.00
ALLSTATE	3333.0	5	12473.0	3	205.0	45	-99.0	NM	6.2	4.4	-2.2	NM	-0.84
ALLSTATE	308.6	14	1140.3	13	29.1	40	100.7	36	9.4	7.7	9.5	13	3.36
ALLSTATE	1752.0**	-5	6721.3	1	142.8	90	513.6	7	8.2	4.1	11.8	11	4.91
ALLSTATE	374.9	3	1459.6	0	54.4	21	97.2	2	14.5	12.4	8.3	14	2.76
ALLSTATE	463.6	1	1803.8	6	62.5	-11	234.6	10	13.5	15.4	12.5	11	2.46
ALLSTATE	967.6	10	3622.2	7	126.2	24	434.7	26	13.0	11.6	15.0	12	4.64
ALLSTATE	565.9	4	2190.6	5	49.3	13	193.0	14	8.7	8.1	14.2	11	5.03
ALLSTATE	1017.4**	6	4072.0	4	106.3	-9	439.0	10	10.4	12.1	11.2	11	3.48
ALLSTATE	1563.6	16	5734.2	13	163.3	5	557.9	4	10.4	11.5	14.1	10	6.49
ALLSTATE	422.1**	38	1561.3	39	80.4	24	290.0	36	19.0	21.2	20.8	22	2.06
ALLSTATE	451.0**	-3	1829.0	-3	39.0	18	79.0	-33	8.6	7.1	6.4	27	1.30
ALLSTATE	1626.6	7	6227.6	2	121.2	11	456.3	-3	7.5	7.2	13.1	13	6.59
ALLSTATE	2391.8	127	8197.4	79	261.7	94	390.5	-7	10.9	12.8	6.4	36	1.05
ALLSTATE	381.6	0	1523.1	5	39.5	5	132.5	-12	10.4	9.9	9.1	15	3.51
ALLSTATE	1027.7	-2	4042.7	-2	48.0	-23	238.0	-15	4.7	5.9	10.4	24	3.26
ALLSTATE	902.0	0	3498.0	1	102.0	57	261.0	25	11.3	7.2	15.6	11	2.05
SAVINGS & LOAN													
ALLSTATE	3663.1	2	14279.2	-1	309.6	49	1074.2	4	8.5	5.8	8.1	22	2.00
ALLSTATE	962.7**	1	3766.6	-14	91.2	50	145.3	-33	9.5	6.4	3.9	42	0.91
ALLSTATE	271.3	-1	1059.0	-6	42.9	NM	127.7	275	15.8	NM	13.8	18	2.67
ALLSTATE	288.8**	12	1127.0	-1	23.2	NM	42.1	-25	8.0	NM	1.9	79	0.32
ALLSTATE	676.4	4	2620.1	7	76.0	14	369.9	58	11.2	10.3	15.7	11	6.33
ALLSTATE	915.6**	-3	3565.8	0	5.1	-95	115.8	-56	0.6	10.5	3.6	47	0.69
ALLSTATE	248.0**	-6	1016.4	40	33.9	74	132.5	23	13.7	7.4	9.1	20	3.02
ALLSTATE	300.3**	15	1124.3	13	37.2	19	140.9	18	12.4	11.9	10.9	19	3.03
OFFICE EQUIPMENT & COMPUTERS													
ALLSTATE	98143.8	10	346647.4	13	6198.8	55	18689.8	29	6.3	4.5	16.8	33	1.59
BUSINESS MACHINES & SERVICES													
ALLSTATE	6762.1	18	24528.0	17	148.8	-16	912.2	17	2.2	3.1	15.8	24	1.56
ALLSTATE	574.6	37	1995.2	38	7.4	3	30.5	47	1.3	1.7	20.1	14	0.63
ALLSTATE	480.5	-4	1895.7	2	-25.0	NM	65.5	-31	NM	NM	9.2	39	0.80
ALLSTATE	294.2	21	1030.2	19	28.3	31	97.4	28	9.6	8.8	17.6	29	2.12
ALLSTATE	290.1	20	998.1	12	21.1	146	68.1	66	7.3	3.5	27.9	15	2.26
ALLSTATE	862.0	-9	3547.8	2	-93.4	NM	-103.8	NM	NM	NM	-85.3	NM	-2.93
ALLSTATE	1029.8	35	3516.4	20	5.2	NM	13.3	NM	0.5	NM	7.1	15	0.89
ALLSTATE	377.1	15	1374.1	16	17.9	260	62.4	423	4.7	1.5	20.6	23	2.53
ALLSTATE	1058.7	8	3858.6	9	127.7	13	469.4	15	12.1	11.5	21.0	19	3.12
ALLSTATE	314.3	35	1181.4	26	25.5	19	97.9	21	8.1	9.2	26.2	25	1.15
ALLSTATE	244.1	-2	944.0	5	17.4	32	63.2	32	7.1	5.3	13.9	15	2.20
ALLSTATE	1236.7	47	4186.5	47	16.7	138	48.4	167	1.4	0.8	11.6	21	1.19

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE- EARNINGS RATIO 2-7
	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 %	4TH QUARTER 1995 %		
(B) COMPUTERS & PERIPHERALS												
GROUP COMPOSITE	70090.5	7	245139.1	9	4573.9	96	11264.4	37	6.5	3.6	16.1	25
AMDAHL	491.8	18	1631.5	8	-33.9	NM	-326.7	NM	NM	NM	-50.5	NM
APPLE COMPUTER (3)	2129.0	32	8814.0	-23	-120.0	NM	-867.0	NM	NM	NM	-44.6	NM
AST RESEARCH	611.4	0	2103.6	-10	-68.0	NM	-417.7	NM	NM	NM	NM	NM
COMPAQ COMPUTER	5422.0	15	18109.0	23	462.0	463	1313.0	66	8.5	1.7	21.4	18
DATA GENERAL (3)	348.5	6	1343.1	11	10.4	121	33.9	NM	3.0	1.4	9.9	22
DELL COMPUTER (11)	2019.0	43	6885.8	44	149.0	98	412.8	57	7.4	5.3	48.5	31
DIGITAL EQUIPMENT (6)	3357.7	-15	13609.7	-6	31.9	-79	-342.8	NM	1.0	3.8	-10.9	NM
EMC	656.4	26	2273.7	18	124.3	100	386.2	18	18.9	12.0	27.6	23
GATEWAY 2000	1552.8	25	5035.2	37	88.1	50	250.7	45	5.7	4.7	30.7	19
HEWLETT-PACKARD (2)	10147.0	12	38420.0	22	648.0	-4	2586.0	6	6.4	7.5	19.2	21
INTERNATIONAL BUSINESS MACHINES	23143.0	6	75947.0	6	2023.0	18	5429.0	30	8.7	7.8	25.6	15
IOMEGA	397.1	167	1212.8	272	20.4	105	57.3	574	5.1	6.7	17.2	39
LEXMARK INTERNATIONAL GROUP	686.9	9	2377.6	10	45.2	NM	127.8	166	6.6	0.1	23.7	15
MICRON ELECTRONICS (4)	421.0	-4	1747.4	34	24.8	49	52.8	-25	5.9	3.8	20.8	35
NCR	2040.0	-10	6963.0	-15	7.0	NM	-109.0	NM	0.3	NM	7.8	NM
QUANTUM (9)	1478.0	22	4988.1	20	52.4	NM	-62.1	NM	3.5	NM	-9.1	NM
SEAGATE TECHNOLOGY (6)	2400.2	3	8568.8	2	212.6	43	285.5	-39	8.9	6.4	8.1	43
SILICON GRAPHICS (6)	825.3	23	3245.2	30	12.8	NM	-30.1	NM	NM	7.8	-1.8	NM
STORAGE TECHNOLOGY	620.7	11	2039.6	6	67.8	NM	170.8	NM	10.9	NM	15.5	15
SUN MICROSYSTEMS (6)	2081.6	19	7798.7	22	178.3	41	567.4	27	8.6	7.2	24.6	24
TANDEM COMPUTERS (3)	435.7	4	1929.4	2	11.8	NM	28.3	-35	2.7	NM	0.4	57
3COM (7)	820.3	46	2796.7	42	105.6	546	301.2	71	12.9	2.9	23.6	31
UNISYS	1811.5	-3	6370.5	0	55.7	NM	61.8	NM	3.1	NM	-34.5	NM
WESTERN DIGITAL (6)	1118.6	48	3550.8	46	64.2	76	149.3	65	5.7	4.8	29.2	22
XEROX	5075.0	7	17378.0	5	426.0	-11	1206.0	3	8.4	10.0	27.8	16
(C) COMPUTER SOFTWARE & SERVICES												
GROUP COMPOSITE	21291.2	19	76980.3	23	1476.2	-2	6513.2	20	6.9	8.4	18.3	49
AMERICA ONLINE (6)	409.4	64	1406.2	99	-154.8	NM	-477.3	NM	NM	3.8	NM	NM
AUTOMATIC DATA PROCESSING (6)	995.6**	21	3906.1	23	127.6	17	484.8	15	12.8	13.3	20.5	25
BAY NETWORKS (6)	514.5	-5	2094.5	19	-172.9	NM	-82.9	NM	NM	10.9	-7.6	NM
BDM INTERNATIONAL	277.8	3	1001.6	13	1.7	-71	17.7	-4	0.6	2.2	10.6	38
CABLETRON SYSTEMS (10)	359.0	27	1314.3	29	69.0	28	172.2	-13	19.2	19.1	17.3	27
CERIDIAN	404.1	12	1495.6	12	49.3	NM	181.9	87	12.2	NM	59.0	15
CISCO SYSTEMS (5)	1434.8	80	4732.5	82	180.9	0	912.9	71	12.6	22.7	29.6	47
COMDISCO (3)	633.0**	19	2534.0	13	30.0	11	117.0	10	4.7	5.1	15.4	15
COMPUSA (6)	1198.6	22	4253.7	29	23.7	27	73.0	73	2.0	1.9	19.9	25
COMPUTER ASSOCIATES INTERNATIONAL (9)	1053.0	5	3945.6	23	-313.3	NM	295.0	NM	NM	22.6	19.5	61
COMPUTER SCIENCES (9)	1421.6	15	5241.3	17	57.4	191	164.3	22	4.0	1.6	10.9	29
ELECTRONIC ARTS (9)	271.1	13	598.2	14	36.7	25	50.0	10	13.5	12.2	13.2	35
ELECTRONIC DATA SYSTEMS	4006.1	11	14441.3	16	272.8	1	431.5	-54	6.8	7.4	9.5	54
FIRST DATA	1349.6	21	4934.1	21	224.3	NM	636.5	NM	16.6	NM	18.2	28
GTECH HOLDINGS (10)	231.9	24	850.6	15	19.1	19	70.6	21	8.2	8.5	20.1	21
INFORMIX	270.8	23	939.3	32	34.1	-5	97.8	0	12.6	16.4	17.1	33
INTERGRAPH	294.1	-2	1095.3	0	-33.6	NM	-69.1	NM	NM	2.4	-14.4	NM
MICROSOFT (6)	2680.0	22	9435.0	27	741.0	29	2476.0	35	27.7	26.2	28.6	52
NOVELL (2)	383.7	-20	1374.9	-33	59.0	0	126.0	-63	15.4	12.3	7.8	34
ORACLE (7)	1311.4	36	4848.0	39	179.5	31	704.9	48	13.7	14.2	33.0	38
SABRE GROUP HOLDINGS	376.0	2	1621.7	6	23.0	-28	187.2	-17	6.1	8.7	NM	19
SOFTWARE SPECTRUM (9)	239.8	104	682.2	78	0.8	-70	1.2	-85	0.3	2.4	1.6	81
SYBASE	267.8	0	1011.5	6	5.1	-15	-79.0	NM	1.9	2.2	-19.9	NM
VANSTAR (8)	543.7	22	2035.3	26	11.1	124	29.8	223	2.0	1.1	12.1	22
WANG LABORATORIES (6)	363.7	24	1187.5	8	4.5	-35	-8.7	NM	1.2	2.4	-17.3	NM

19 PAPER & FOREST PRODUCTS

INDUSTRY COMPOSITE	24240.1	-6	98017.0	-6	672.5	-15	3868.0	-39	2.8	3.0	9.4	23
(A) FOREST PRODUCTS												
GROUP COMPOSITE	6165.9	-7	25221.4	-8	-45.8	NM	161.3	-92	NM	6.9	1.3	NM
BOISE CASCADE	1262.7	2	5108.2	1	2.1	-97	9.1	-97	0.2	5.7	-2.3	NM
GEORGIA-PACIFIC	3196.0	6	13024.0	-9	2.0	-99	161.0	-84	0.1	5.8	4.5	43
LOUISIANA-PACIFIC	567.3	-15	2486.0	-13	-14.7	NM	-200.7	NM	NM	4.0	-14.1	NM
RAYONIER	302.3	-8	1178.1	-7	-62.6	NM	-0.2	NM	NM	10.3	0.0	NM
WILLAMETTE INDUSTRIES	837.6	-12	3425.2	-12	27.3	-79	192.1	-63	3.3	13.8	9.8	18
(B) PAPER												
GROUP COMPOSITE	18074.1	-6	72795.5	-5	718.3	118	3706.7	-15	4.0	1.7	11.8	20
BOWATER	372.2	-32	1718.3	-14	18.6	-81	204.1	21	5.0	17.5	19.4	9
CHAMPION INTERNATIONAL	1432.2	-18	5880.4	-16	10.1	-95	141.3	-82	0.7	12.5	3.8	29
CHESAPEAKE	295.0	-1	1158.6	-6	8.8	-64	30.1	-68	3.0	8.2	6.5	24
CONSOLIDATED PAPERS	364.0	-20	1545.1	-2	37.2	-49	179.3	-22	10.2	16.1	14.1	12
FORT HOWARD	384.5	-7	1580.8	-2	64.3	208	170.7	410	16.7	5.0	NM	12
INTERNATIONAL PAPER	5100.0	0	20100.0	2	-5.0	NM	303.0	-74	NM	5.2	3.2	40
JAMES RIVER CORP. OF VIRGINIA	1299.7	-18	5690.5	-16	35.4	64	157.3	24	2.7	1.4	6.3	28
KIMBERLY-CLARK	3323.6	1	13149.1	-2	347.1	NM	1403.8	NM	10.4	NM	32.6	20

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-7	12 MONTHS' EARNINGS PER SHARE
	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 %	4TH QUARTER 1995 %			
TECH	1149.7	1	4706.5	-9	29.2	-61	189.9	-45	2.5	6.5	8.5	16	3.57
LER	381.5	-5	1554.4	-3	18.9	-36	61.5	-43	5.0	7.3	6.4	20	2.13
ACO (2)	421.9	22	1552.4	12	0.1	NM	190.5	56	0.0	3.4	33.4	13	0.85
HAUSER	778.7	-11	3045.5	-7	55.6	37	212.2	-25	7.1	10.2	9.6	14	2.09
	2771.0	-9	11114.0	-6	98.0	61	463.0	-42	3.5	8.2	10.1	20	2.34

PUBLISHING & BROADCASTING

STRY COMPOSITE	11726.4	17	39554.9	11	1305.3	146	2439.9	68	11.1	5.3	12.0	33	1.35
ONES	671.3	10	2481.6	9	59.6	-1	190.0	0	8.9	9.8	11.3	20	1.96
TT	1195.2	12	4421.1	18	289.1	95	624.0	36	24.2	13.9	23.4	18	4.43
COMMUNICATIONS	379.4	33	1374.5	31	55.3	42	8.0	NM	14.6	13.6	-93.9	NM	-0.27
-RIDDER	706.4	-6	2774.8	1	75.7	144	267.9	60	10.7	4.1	24.1	14	2.75
W-HILL	830.9	11	3074.7	5	307.9	465	495.7	118	37.1	7.3	47.9	10	4.96
ORK TIMES	718.3	10	2615.0	9	52.7	59	84.5	-38	7.3	5.0	5.2	47	0.87
'S DIGEST ASSOCIATION (6)	874.6	-5	2967.6	-6	84.1	-11	50.6	-79	9.6	10.3	11.2	83	0.46
ASTIC (7)	342.2	16	999.6	19	38.5	24	35.0	-20	11.2	10.6	10.9	28	2.16
S (E. W.)	324.8	16	1121.9	9	57.7	96	130.1	39	17.8	10.4	10.2	23	1.62
ARNER	3700.0	57	10064.0	25	59.0	79	-156.0	NM	1.6	1.4	-11.7	NM	-0.95
MIRROR	871.4	-10	3401.0	-1	78.7	NM	206.4	NM	9.0	NM	17.1	31	1.55
IE	608.3	2	2405.7	7	81.8	26	282.8	15	13.5	10.9	20.4	18	2.15
NGTON POST	503.6	9	1853.4	8	65.3	23	220.8	16	13.0	11.4	17.3	17	20.05

SERVICE INDUSTRIES

STRY COMPOSITE	40080.6	21	143199.9	17	328.9	-73	3192.6	-32	0.8	3.7	8.3	40	0.79
CONSTRUCTION & ENGINEERING													
P COMPOSITE	5127.9	27	16898.0	16	122.5	22	367.8	0	2.4	2.5	12.8	24	1.72
R MFG.	272.0	25	870.2	5	7.9	33	25.8	10	2.9	2.7	22.0	11	3.35
	369.8	-2	1427.3	1	14.3	-25	54.5	0	3.9	5.0	14.4	19	1.15
(2)	3327.7	29	11015.2	18	78.9	20	268.1	16	2.4	2.6	16.1	23	3.17
ENGINEERING GROUP (3)	433.6	-8	1761.5	-1	10.9	14	41.7	21	2.5	2.0	14.7	17	1.61
SON KNUDSEN (1)	416.7**	510	659.1	188	5.6	92	4.8	NM	1.3	4.3	-4.0	NM	-0.14
& WEBSTER	308.1	-6	1164.8	18	5.0	NM	-17.4	NM	1.6	NM	-5.5	NM	-1.32

INDUSTRIAL DISTRIBUTION

P COMPOSITE	17965.5	30	63412.7	22	-145.8	NM	1108.6	-39	NM	3.3	8.1	29	1.09
(9)	297.2	43	1086.3	37	11.0	12	44.5	17	3.7	4.7	13.0	28	0.66
ANCE	1091.4	-7	4386.7	-11	-595.5	NM	-549.7	NM	NM	4.2	-38.5	NM	-10.01
SONS	323.2	-9	1150.3	5	5.6	1	0.0	NM	1.7	1.6	8.7	12	0.76
D INDUSTRIAL TECHNOLOGIES (6)	275.0	0	1148.8	4	6.0	16	25.0	24	2.2	1.9	12.8	14	2.03
(6)	1331.7	2	5330.7	11	45.6	-2	185.0	8	3.4	3.6	12.0	14	4.24
CASCADE OFFICE PRODUCTS	556.7	48	1985.6	51	14.5	-2	55.3	28	2.6	3.9	14.4	27	0.89
CE PRODUCTS INTERNATIONAL	375.9	21	1412.5	25	4.0	8	14.7	119	1.1	1.2	5.5	23	0.44
AR (1)	293.5	20	947.6	17	8.2	29	-6.4	NM	2.8	2.6	-6.7	NM	-0.33
	463.9	4	1847.7	4	24.9	19	92.1	21	5.4	4.7	19.9	16	2.01
SCIENTIFIC INTERNATIONAL	4049.0	59	13289.0	45	132.0	2	584.0	12	3.3	5.1	16.5	18	2.31
ER (W. W.)	555.2	15	2144.4	49	12.4	520	36.8	NM	2.2	0.4	9.5	22	1.96
	904.1	12	3537.2	8	56.6	11	208.5	12	6.3	6.3	16.1	19	4.04
S SUPPLY (11)	371.7	25	1312.0	22	9.2	83	25.8	50	2.5	1.7	10.2	11	2.99
	239.1**	-1	953.7	6	7.1	48	23.6	20	3.0	2.0	11.9	12	1.06
HALL INDUSTRIES (7)	286.3	-3	1149.0	3	9.4	-31	42.3	-12	3.3	4.6	12.7	13	2.43
	2954.4	174	7260.2	98	47.7	166	113.3	22	1.6	1.7	11.4	26	0.83
R STANDARD ELECTRONICS (9)	384.4	46	1498.9	55	5.6	38	24.0	-4	1.5	1.6	14.5	15	1.04
ON TULL	569.0	-1	2394.1	-2	10.6	-54	63.3	-29	1.9	4.0	17.9	9	1.61
URCE WORLDWIDE (3)	1728.5	1	7035.3	-2	20.2	-16	54.2	-50	1.2	1.4	5.8	27	0.81
STATIONERS	599.3	9	2298.2	31	9.7	104	32.0	412	1.6	0.9	39.9	10	2.03
ELECTRONICS	315.9	6	1244.5	16	9.5	-10	40.2	11	3.0	3.5	17.5	13	3.12

POLLUTION CONTROL

P COMPOSITE	4497.0	9	17396.1	4	-153.4	NM	349.6	-65	NM	4.6	3.6	NM	0.15
ING-FERRIS INDUSTRIES (3)	1495.1	5	5843.6	-1	71.9	-13	-100.3	NM	4.8	5.8	-4.0	NM	-1.53
LIC INDUSTRIES	663.1	51	2365.5	32	-65.0	NM	-27.9	NM	NM	NM	-8.2	NM	-0.12
TECHNOLOGIES	2338.8	4	9187.0	1	-160.3	NM	477.8	-23	NM	5.0	9.1	32	0.97

PRINTING & ADVERTISING

P COMPOSITE	2416.4	-6	8667.5	1	118.3	1	-96.2	NM	4.9	4.6	-4.8	NM	-0.46
(3)	255.1	-1	984.8	-3	6.2	-12	10.5	-62	2.4	2.7	NM	31	0.43
	289.3	-5	1083.8	6	15.0	4	50.9	-5	5.2	4.7	12.5	14	1.63
LLEY (R. R.) & SONS	1871.9	-6	6599.0	1	97.2	2	-157.6	NM	5.2	4.8	-9.4	NM	-1.04

OTHER SERVICES

P COMPOSITE	10073.9	19	36825.7	18	387.3	11	1462.9	26	3.8	4.1	13.5	30	1.03
INDUSTRIES (2)	288.5**	14	1086.9	13	6.9	18	21.7	19	2.4	2.3	12.9	17	1.05
WARNER SECURITY	443.9	3	1711.2	0	6.2	51	13.9	65	1.4	1.0	47.3	20	0.59
INTERNATIONAL (11)	602.2	22	2051.4	20	-18.0	NM	117.2	4	NM	8.8	10.0	70	0.34
EMAN (8)	347.1	18	1178.8	-1	6.8	103	-20.7	NM	2.0	1.1	-7.5	NM	-0.62
	249.0**	120	799.0	93	47.0	131	169.6	113	18.9	18.0	8.9	55	1.29
	920.7	40	3102.1	41	6.3	41	18.7	60	0.7	0.7	10.6	17	1.76
M SERVICES	306.5	25	1147.2	33	10.0	40	23.0	-3	3.3	2.9	5.6	27	1.38

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12/31	PRICE-EARNINGS RATIO 2-7
	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 %	4TH QUARTER 1995 %		
KELLY SERVICES	890.9	24	3302.3	23	21.2	5	73.0	5	2.4	2.8	14.5	14
MANPOWER	1615.9	16	6079.9	11	48.1	32	162.3	27	3.0	2.6	29.0	18
NORRELL (2)	279.0	18	1013.9	20	7.3	50	25.3	46	2.6	2.1	25.8	28
OLSTEN	931.0**	26	3377.7	20	16.6	-35	54.6	-39	1.8	3.4	7.4	26
PHH (8)	604.1	2	2437.8	10	24.0	23	89.5	19	4.0	3.3	13.7	19
PITTSBURGH BRINK'S GROUP	243.2	13	909.8	15	18.0	20	59.7	17	7.4	7.0	19.0	18
ROBERT HALF INTERNATIONAL	258.8	47	898.6	43	17.7	54	61.1	52	6.8	6.5	21.3	42
SAFETY-KLEEN	297.0	13	923.1	7	20.4	14	61.1	15	6.9	6.8	13.2	15
SERVICE CORP. INTERNATIONAL	609.5	11	2294.2	39	73.8	31	265.3	45	12.1	10.3	12.4	26
SERVICEMASTER	873.9	11	3458.3	8	64.6	43	245.1	43	7.4	5.7	30.8	15
VOLT INFORMATION SCIENCES (2)	312.8	2	1053.5	16	10.5	34	22.4	37	3.4	2.6	17.2	20

22 TELECOMMUNICATIONS

INDUSTRY COMPOSITE	65621.2	8	245599.6	8	6905.3	326	26222.7	42	10.5	2.7	23.1	17
(A) EQUIPMENT & SERVICES GROUP COMPOSITE	33106.6	10	120864.7	11	2944.5	NM	10081.6	116	8.9	NM	18.6	18
ADC TELECOMMUNICATIONS (2)	255.1	47	828.0	41	28.1	51	87.5	58	11.0	10.7	14.2	54
AIRTOUCH COMMUNICATIONS†	720.8	69	2251.7	39	26.7	138	199.0	51	3.7	2.6	4.4	80
AT&T	13238.0	3	52184.0	3	1242.0	NM	5608.0	75	9.4	NM	26.6	11
DSC COMMUNICATIONS	390.6	4	1380.9	-3	17.5	-65	-7.6	NM	4.5	13.2	-0.7	NM
EXCEL COMMUNICATIONS	358.5	81	1351.3	167	31.1	60	144.4	225	8.7	9.8	44.8	14
LCI INTERNATIONAL	293.8	44	1103.0	64	21.7	35	74.8	47	7.4	7.9	17.7	23
LUCENT TECHNOLOGIES (3)	7938.0	7	23797.0	11	859.0	NM	1083.0	NM	10.8	NM	30.8	32
MCI COMMUNICATIONS	4753.0	15	18494.0	21	318.0	12	1237.0	126	6.7	6.9	11.3	21
SCIENTIFIC-ATLANTA (6)	282.2	8	1088.5	-3	13.8	109	21.1	-57	4.9	2.5	4.4	70
SPRINT	3622.0	8	14044.7	10	246.0	15	1190.9	26	6.8	6.4	14.2	15
TELEPHONE & DATA SYSTEMS	336.4	32	1214.6	27	12.1	-23	128.1	23	3.6	6.1	6.2	17
TELLABS	272.9	51	869.0	37	59.4	56	118.0	2	21.8	21.0	20.0	64
U. S. ROBOTICS (3)	645.4	77	2258.1	107	69.0	66	197.4	106	10.7	11.4	25.8	32
(B) TELEPHONE COMPANIES GROUP COMPOSITE	32514.7	7	124734.9	6	3960.9	38	16141.1	17	12.2	9.4	27.3	16
ALLTEL	806.3	4	3192.4	3	96.9	5	291.7	-18	12.0	12.0	14.3	22
AMERITECH	3884.0	10	14917.0	11	570.0	38	2134.0	6	14.7	11.7	28.8	16
BELL ATLANTIC	3371.3	7	13081.4	-3	345.6	-13	1739.4	-7	10.3	12.5	23.9	17
BELLSOUTH	5050.0	6	19040.0	6	633.0	NM	2863.0	83	12.5	NM	21.6	15
CINCINNATI BELL	432.4	26	1573.7	18	51.6	NM	185.0	NM	11.9	NM	31.6	23
FRONTIER	581.1	-4	2575.6	20	9.8	-83	217.9	51	1.7	9.6	20.4	16
GTE	5751.0	7	21339.0	7	784.0	8	2798.0	9	13.6	13.5	40.2	16
NYNEX	3330.3	0	13508.8	1	379.7	61	1346.0	26	11.4	7.1	19.9	17
PACIFIC TELESIS GROUP	2449.0	7	9588.0	6	192.0	-17	1057.0	1	7.8	10.1	40.3	16
SBC COMMUNICATIONS	3768.4	9	13898.2	10	542.9	5	2101.2	11	14.4	15.0	30.7	16
SOUTHERN NEW ENGLAND TELECOMMS.	491.9**	6	1941.9	7	44.3	9	192.8	14	9.0	8.8	41.6	12
US WEST COMMUNICATIONS GROUP	2599.0	7	10079.0	6	311.0	10	1215.0	3	12.0	11.6	31.8	13

23 TRANSPORTATION

INDUSTRY COMPOSITE	42114.2	8	163946.2	9	1837.9	214	7749.9	44	4.4	1.5	15.3	14
(A) AIRLINES GROUP COMPOSITE	19090.0	7	78187.7	8	652.8	NM	3333.4	65	3.4	NM	28.9	9
ALASKA AIR GROUP	359.2	5	1592.2	12	-5.6	NM	38.0	120	NM	NM	13.9	8
AMERICA WEST HOLDINGS	439.9	11	1739.5	12	12.1	102	9.6	-82	2.7	1.5	1.5	69
AMR	4333.0	3	17753.0	5	373.0	NM	1105.0	476	8.6	NM	20.9	6
CONTINENTAL AIRLINES	1561.0	10	6360.0	9	47.0	15	325.0	45	3.0	2.9	62.1	6
DELTA AIR LINES (6)	3197.0	9	12952.0	6	125.0	81	249.0	-51	3.9	2.3	8.2	48
NORTHWEST AIRLINES	2340.1	6	9880.5	9	26.0	622	536.1	57	1.1	0.2	NM	6
SOUTHWEST AIRLINES	831.8	11	3406.2	19	28.2	-35	207.3	14	3.4	5.8	12.8	16
UAL	3976.0	8	16362.0	10	20.0	NM	600.0	59	0.5	NM	63.7	10
USAIR GROUP	2051.9	11	8142.4	9	27.2	-55	263.4	121	1.3	3.2	NM	8
(B) RAILROADS GROUP COMPOSITE	9727.9	10	35993.0	11	1073.5	143	3589.4	49	11.0	5.0	13.4	16
BURLINGTON NORTHERN SANTA FE	2092.0	0	8187.0	33	244.0	NM	889.0	349	11.7	NM	15.6	15
CONRAIL	943.0	-1	3714.0	1	147.0	NM	342.0	30	15.6	NM	10.8	25
CSX	2703.0	0	10536.0	2	253.0	-8	855.0	38	9.4	10.2	17.1	12
NORFOLK SOUTHERN	1179.9**	2	4770.0	2	200.5	13	770.4	8	17.0	15.3	15.5	15
UNION PACIFIC	2810.0	42	8786.0	17	229.0	28	733.0	18	8.2	9.1	9.1	18
(C) TRANSPORTATION SERVICES GROUP COMPOSITE	7106.5	10	27345.1	9	91.8	-62	646.1	-22	1.3	3.7	8.6	21
AIRBORNE FREIGHT	652.0	8	2484.3	11	10.7	-10	27.4	15	1.6	2.0	6.5	21
FEDERAL EXPRESS (7)	2852.4	12	10817.9	10	103.7	15	308.2	-2	3.6	3.5	11.2	19
FRITZ (7)	306.5	11	1078.3	NA	9.3	-27	16.8	NA	3.0	4.6	6.7	24
GATX	405.2**	25	1414.4	13	18.9	1	102.7	2	4.7	5.8	11.6	11
NEWPORT NEWS SHIPBUILDING	433.0	-7	1870.0	7	3.0	-80	55.0	-25	0.7	3.2	NA	10
PITTSBURGH BURLINGTON GROUP	407.9	6	1501.8	6	10.6	3	33.8	3	2.6	2.7	11.1	11
RYDER SYSTEM	1356.7	1	5519.4	7	-99.3	NM	-31.3	NM	NM	4.2	-2.4	NM
TRINITY INDUSTRIES (9)	692.9	15	2658.9	7	34.9	24	133.4	22	5.0	4.7	15.4	11

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-7	12 MONTHS' EARNINGS PER SHARE
	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 %	4TH QUARTER 1995 %			
TRUCKING & SHIPPING													
TRUCKING & SHIPPING COMPOSITE	6189.9	8	22420.4	7	19.9	NM	181.0	8	0.3	NM	3.3	36	0.55
ANDER & BALDWIN	331.8**	29	1232.6	21	17.2	37	65.3	101	5.2	4.9	9.7	18	1.44
	725.5**	6	2739.1	-5	16.6	NM	69.5	129	2.3	NM	13.8	9	2.67
ASBESTOS BEST	414.8	0	1659.2	15	-9.8	NM	-36.6	NM	NM	NM	-27.7	NM	-2.10
CR SYSTEM	892.9	11	2718.1	11	2.0	92	9.9	-89	0.2	3.3	1.4	91	0.25
TRANSPORTATION	984.2	12	3662.2	11	19.5	-9	80.2	-7	2.0	2.4	6.3	16	1.59
VALIDATED FREIGHTWAYS	554.0	11	2146.2	2	-25.8	NM	-55.6	NM	NM	NM	-19.9	NM	-2.52
(J. B.) TRANSPORT SERVICES	381.4	6	1486.7	10	5.4	NM	22.1	NM	1.4	NM	6.0	24	0.58
WAY EXPRESS	782.1	9	2372.7	4	10.6	NM	21.9	NM	1.4	0.1	10.2	19	1.07
WRIGHTWAYS	342.0	19	1331.0	16	8.0	19	31.5	-6	2.3	2.3	12.0	17	1.41
W	781.1	5	3072.6	1	-23.9	NM	-27.2	NM	NM	NM	-6.5	NM	-0.97
UTILITIES & POWER													
UTILITY COMPOSITE	60265.7	16	227914.0	13	4047.8	20	20617.8	1	6.7	6.5	11.4	13	2.10
ELECTRIC, WATER & COGENERATION													
UTILITY COMPOSITE	45466.5	9	180676.6	7	3206.3	-5	18032.7	-4	7.1	8.1	11.2	13	2.11
	284.0	64	835.0	22	36.0	27	125.0	17	12.7	16.4	18.1	37	1.62
ALABAMA POWER SYSTEM	390.0	0	1552.3	2	51.0	-22	219.4	-14	13.1	16.6	9.7	17	1.73
ALABAMA ELECTRIC POWER	1446.1	1	5849.2	3	142.6	-1	629.4	8	9.9	10.1	13.0	13	3.14
ALABAMA GAS & ELECTRIC	734.3	1	3153.2	7	-1.0	NM	310.8	-8	NM	7.3	9.5	15	1.85
ALABAMA EDISON	390.7	6	1666.3	2	8.4	NM	141.5	26	2.2	NM	12.0	10	2.61
ALABAMA POWER & LIGHT	694.6	-4	2995.7	0	81.1	22	391.3	5	11.7	9.3	14.2	14	2.66
ALABAMA RIOR ENERGY	611.9	5	2553.2	2	35.9	-18	177.0	-37	5.9	7.6	6.2	13	0.82
ALABAMA & SOUTH WEST	1234.0	15	5464.0	46	63.0	-6	447.0	6	5.1	6.3	8.2	12	2.07
ALABAMA MAINE POWER	247.6	7	967.0	6	19.9	102	60.2	59	8.0	4.2	10.1	7	1.57
ALABAMA RY	876.2	12	3242.7	7	77.1	-8	361.2	4	8.8	10.6	12.9	16	2.12
ALABAMA RY ENERGY	1183.0	11	4333.0	11	53.0	18	276.0	19	4.5	4.2	14.8	14	2.41
ALABAMA RY ENERGY SYSTEM	263.1	6	1010.9	9	13.4	-21	59.2	15	5.1	6.8	14.2	9	2.70
ALABAMA EDISON CO. OF N. Y.	1632.3	7	6959.7	6	120.1	6	694.1	-4	7.4	7.4	12.0	11	2.93
ALABAMA RY POWER & LIGHT	260.4	8	1095.0	10	21.7	9	116.2	-1	8.3	8.3	11.5	11	1.77
ALABAMA RY RESOURCES	1195.3	5	4842.3	4	76.1	53	514.7	10	6.4	4.4	9.6	15	2.65
ALABAMA RY	332.1	-2	1270.0	0	32.7	9	173.8	5	9.9	8.9	14.4	14	1.72
ALABAMA RY	295.9	2	1225.2	0	40.4	2	179.1	2	13.7	13.6	13.1	12	2.32
ALABAMA RY POWER	887.2	2	3645.4	0	80.6	0	325.3	-25	9.1	9.3	9.0	15	2.13
ALABAMA RY INTERNATIONAL	1183.7	4	4758.0	2	116.3	28	730.0	2	9.8	8.0	14.0	13	3.37
ALABAMA RY	2194.9	7	8544.5	2	129.0	-14	764.2	-3	5.9	7.3	11.0	14	1.64
ALABAMA RY	549.0	17	1993.5	7	56.4	4	237.5	2	10.3	11.6	14.8	11	1.98
ALABAMA RY PROGRESS	774.9	6	3157.9	5	46.4	-4	256.7	3	6.0	6.6	11.8	12	2.59
ALABAMA RY GROUP	1435.4	5	6036.8	8	91.1	3	603.2	1	6.3	6.5	12.6	13	3.33
ALABAMA RY	924.7	-1	3918.1	3	91.7	13	342.8	-29	9.9	8.7	9.7	13	2.47
ALABAMA RY	369.0	11	1410.6	9	22.7	31	85.3	1	6.2	5.2	10.3	14	2.60
ALABAMA RY INDUSTRIES	906.0	13	4095.3	10	41.6	272	427.5	0	4.6	1.4	10.1	14	1.66
ALABAMA RY INDUSTRIES	286.2	32	973.9	14	18.1	29	61.8	-5	6.3	6.5	9.8	15	2.04
ALABAMA RY	417.9	8	1688.7	3	25.9	228	213.7	22	6.2	2.1	11.6	10	2.51
ALABAMA RY ENERGY	1099.2	117	3589.5	161	12.5	NM	108.6	22	1.1	0.2	12.1	16	1.57
ALABAMA RY ISLAND LIGHTING	742.1	-2	3150.7	2	64.2	6	316.5	4	8.6	8.0	10.5	10	2.20
ALABAMA RY AMERICAN ENERGY HOLDINGS	538.9	27	1872.6	14	29.7	16	143.8	20	5.5	6.0	11.6	11	1.43
ALABAMA RY ANA POWER	292.5	8	970.9	2	46.6	NM	119.4	110	15.9	NM	11.7	11	2.03
ALABAMA RY ANGLAND ELECTRIC SYSTEM	596.5	3	2350.7	3	49.9	-4	216.8	2	8.4	8.9	12.5	11	3.22
ALABAMA RY YORK STATE ELECTRIC & GAS	531.1	0	2059.4	2	47.6	-10	178.2	-9	9.0	9.9	9.5	10	2.37
ALABAMA RY INDUSTRIES	524.4	12	1821.6	6	53.6	-1	185.4	1	10.2	11.5	16.0	14	2.88
ALABAMA RY EAST UTILITIES	936.5	-4	3792.1	1	-67.7	NM	35.8	-89	NM	7.4	0.1	NM	0.01
ALABAMA RY NERN STATES POWER	710.0	9	2654.2	3	79.7	35	274.5	0	11.2	9.0	12.3	12	3.82
ALABAMA RY ENERGY	311.5	10	1387.4	7	7.3	49	133.3	6	2.3	1.7	13.6	13	3.25
ALABAMA RY EDISON	611.9	-1	2469.8	0	76.5	-3	330.6	2	12.5	12.8	12.2	11	2.10
ALABAMA RY CORP	1180.3	32	4293.8	26	132.9	4	504.9	0	11.3	14.3	12.0	13	1.62
ALABAMA RY ENERGY	1013.5	-3	4283.6	2	125.0	-1	543.9	-14	12.3	12.1	10.7	10	2.24
ALABAMA RY	2700.7	21	9610.0	0	149.0	-34	755.2	-44	5.5	10.2	8.5	13	1.75
ALABAMA RY CLE WEST CAPITAL	404.9	9	1817.8	9	-2.5	NM	228.2	4	NM	6.2	10.6	13	2.41
ALABAMA RY AND GENERAL	317.7	13	1111.8	13	26.5	31	132.3	46	8.4	13.7	13.6	16	2.53
ALABAMA RY MAC ELECTRIC POWER	413.7	3	2010.3	7	11.3	22	237.0	151	2.7	2.3	11.7	14	1.86
ALABAMA RY RESOURCES	737.4	1	2910.2	6	80.1	-17	357.4	2	10.9	13.2	12.2	11	2.05
ALABAMA RY C SERVICE CO. OF COLORADO	586.8	12	2171.4	3	52.1	2	190.3	6	8.9	9.8	12.6	14	2.78
ALABAMA RY C SERVICE ENTERPRISE GROUP	1574.1	1	6041.2	3	140.7	9	620.1	-8	8.9	8.3	10.8	12	2.42
ALABAMA RY WESTER GAS & ELECTRIC	274.4	1	1054.0	4	22.2	NM	97.5	36	8.1	NM	11.4	8	2.32
ALABAMA RY	365.2	13	1512.8	12	39.6	13	220.7	27	10.8	10.8	12.9	12	2.05
ALABAMA RY NERN	2453.0	6	10324.0	12	161.4	-17	1214.9	1	6.6	8.4	12.3	13	1.68
ALABAMA RY ENERGY	369.5	11	1473.0	6	45.7	12	202.4	7	12.4	12.2	16.2	14	1.71
ALABAMA RY	1637.3	4	6937.0	0	113.7	45	747.5	2	6.9	5.0	11.2	7	3.09
ALABAMA RY ELECTRIC	475.7	3	2260.4	1	15.8	-42	304.9	-3	3.3	5.9	12.1	13	2.86
ALABAMA RY KINGTON WATER POWER	281.3	17	945.0	25	14.2	-56	83.5	-4	5.1	13.6	10.5	14	1.35
ALABAMA RY NERN RESOURCES	564.9	24	2046.8	17	32.5	-30	169.0	-7	5.7	10.2	9.5	13	2.41

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-7
	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 \$ MIL	CHANGE FROM 1995 %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	4TH QUARTER 1996 %	1995 %		
WHEELABRATOR TECHNOLOGIES	245.7	8	952.3	0	-17.9	NM	109.5	-19	NM	4.8	8.6	23
WISCONSIN ENERGY	477.9	2	1773.8	0	56.6	-8	219.3	-7	11.9	13.2	11.4	13
WPL HOLDINGS	251.4	15	932.8	16	11.9	-49	76.5	2	4.7	10.6	11.9	12
WPS RESOURCES	246.3	21	858.3	19	4.5	-68	50.9	-13	1.8	7.0	10.1	14
(B) GAS, OIL & TRANSMISSION												
GROUP COMPOSITE	14799.1	46	47237.5	40	841.5	NM	2585.1	68	5.7	0.1	13.1	17
AGL RESOURCES (3)	379.6	15	1271.0	19	30.7	2	80.5	36	8.1	9.1	12.9	15
AQUILA GAS PIPELINE	264.7	82	799.3	65	9.6	NM	32.5	258	3.6	NM	17.0	13
BROOKLYN UNION GAS (3)	446.7	12	1476.7	18	44.8	0	123.0	31	10.0	11.2	13.1	12
COLUMBIA GAS SYSTEM	1117.8	43	3354.0	27	68.2	NM	221.6	NM	6.1	NM	14.3	16
EASTERN ENTERPRISES	240.7	-4	1007.3	6	17.2	-32	60.7	0	7.1	10.1	14.2	11
EL PASO NATURAL GAS	1072.3	162	3010.1	190	24.2	6	38.2	-55	2.3	5.6	5.4	51
K N ENERGY	475.9	44	1443.2	30	23.8	23	63.8	22	5.0	5.8	12.6	17
MCN	608.9	18	1997.3	34	45.3	5	124.4	21	7.4	8.3	15.4	18
NATIONAL FUEL GAS (3)	363.5	15	1255.2	24	38.6	19	110.9	43	10.6	10.2	13.0	14
NICOR	592.9	27	1850.7	25	35.2	-1	121.2	21	5.9	7.7	16.7	15
NORAM ENERGY	1580.2	63	4788.5	62	39.8	14	95.1	45	2.5	3.6	11.9	22
ONEOK (4)	248.8	4	1234.6	20	12.2	45	56.6	30	4.9	3.5	13.4	14
PACIFIC ENTERPRISES	776.0	30	2563.0	9	49.0	-4	210.0	7	6.3	8.5	14.4	13
PANENERGY	2556.1	94	7536.8	52	93.4	19	361.1	19	3.7	5.9	15.0	18
PEOPLES ENERGY (3)	387.1	22	1268.2	21	37.5	4	104.8	43	9.7	11.4	15.4	11
SONAT	1025.2	77	3394.9	71	67.0	804	201.2	4	6.5	1.3	13.1	22
SOUTHERN UNION (6)	230.9	28	680.9	32	12.0	8	31.4	27	5.2	6.1	9.0	18
UGI (3)	529.6	24	1660.3	50	28.6	51	52.0	191	5.4	4.4	13.0	16
USX-DELHI GROUP	318.5	37	1061.3	58	6.4	300	6.4	60	2.0	0.7	5.8	25
WASHINGTON GAS LIGHT (3)	345.0	26	1040.4	21	37.4	-2	80.7	10	10.8	14.0	13.6	13
WICOR	281.1	13	1012.6	18	14.6	-14	46.7	18	5.2	6.8	13.0	14
WILLIAMS	957.8	14	3531.2	24	106.0	65	362.3	21	11.1	7.7	11.1	18

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

A	A&P 10c	American Stores 10c	Bankers Trust 3a	C	Coca-Cola Enterprises 6c	Dean Foods 10b	Electronic Data Systems 1b
Abbott Laboratories 12d	AmeriSource Health 12a	BanPonze 3c	Cabletron Systems 18c	Colgate-Palmolive 6d	Dean Witter, Discover 17a	EMC 18b	Emerson Electric 9a
ABM Industries 21e	Ameritech 22b	Banta 21d	Cabot 4	Collins & Aikman 15d	Deere 15c	Engelhard 4	Enova 24a
Adaptec 9d	Ames Dept. Stores 8	Bard (C.R.) 12d	Caldor 8	Coltec Industries 15c	Delchamps 10c	Equihart 17b	Excel Communications 15a
ADC Telecomm 22a	Amgen 12b	Barnes & Noble 8	Caliber System 23d	Columbia Gas 24b	Dell Computer 18b	Estee Lauder 6d	Exide 15a
Advanced Micro 9d	Amoco 11a	Barnett Banks 3c	Campbell Soup 10b	Columbia/HCA Healthcare 12c	Delmarva Power & Light 24a	Ethyl 4	Exxon 11a
ADVO 21d	AMP 9d	Bausch & Lomb 12d	Canandaigua Wine 6c	Comdisco 18c	Delta Air Lines 23a	Fabrics of America 17a	Fannie Mae 17a
AES 24a	AMR 23a	Baxter International 12d	Capital One Financial 17a	Comerica 3b	Deluxe 18a	Federal Express 23c	Federal Home Loan 17a
Aetna 17b	Analog Devices 9d	Bay Networks 18c	Cardinal Health 12a	Commercial Metals 16b	Detroit Diesel 2b	Federated Dept. Stores 17a	Ferris 4
AFLAC 17b	Andersons 21b	BDM International 18c	Carlisle 15a	Commonwealth Energy System 24a	Dexter 4	FHP International 12c	Fifth Third Bancorp 3b
AGC 15c	Andrew 9b	Bear Stearns 17a	Carnival 14c	Compaq Computer 18b	Dial 6d	Fieldcrest Cannon 15d	Fina 11a
AGL Resources 24b	Anheuser-Busch 6c	Beckman Instruments 9c	Carolina Power 24a	CompuCom Systems 18a	Diebold 18a	Fingerhut 8	First American Fml 17a
Ahmanson (H.F.) 17c	Aon 17b	Becton, Dickinson 12d	Carson Prime Scott 8	CompuS 18c	Digital Equipment 18b	First Bank System 3b	First Bank System 3b
Air Products & Chemicals 4	Apache 11a	Bell Atlantic 22b	Case 15c	Computer Associates 18c	Dillard 8	Federal Mogul 2b	Federated Dept. Stores 17a
Airborne Freight 23c	ARL 23d	BellSouth 22b	Casey's General Stores 10c	Computer Sciences 18c	D/Mon 6e	Ferris 4	Ferris 4
Airgas 21b	Apple Computer 18b	Bemis 7b	Caterpillar 15c	ConAgra 10b	Disney (Walt) 14c	FHP International 12c	Fifth Third Bancorp 3b
AirTouch Communications 22a	Applied Industrial Tech. 21b	Beneficial 17a	CDW Computer Centers 8	Conrail 23b	Dole Food 10b	Fieldcrest Cannon 15d	Fina 11a
AK Steel Holding 16b	Applied Materials 15c	Bergens Brunswig 12a	CellStar 21b	Consolidated Edison 24a	Dollar General 8	Fingerhut 8	First American Fml 17a
Alaska Air Group 23a	Aquila Gas Pipeline 24b	Best Buy 6b	Centener Energy 24a	Cons. Freightways 23b	Dominick's Supermarkets 10c	First Bank System 3b	First Bank System 3b
Alberto Culver 6d	Arco Chemical 4	Bethlehem Steel 16b	Centex 13b	Consolidated Papers 19d	Dominion Resources 24a	First Chicago NBD 3b	First Data 18c
Albertson's 10c	Arkansas Best 23d	Beverly Enterprises 12c	Central & South West 24a	Consolidated Stores 8	Donaldson, Lufkin & Jenrette 17a	First Security 3d	First Tennessee Natl. 3c
Alcoa 16a	Armo 16b	BJ Services 11b	Central Maine Power 24a	Continental Airlines 23a	Donnelley (R.R.) 21d	First Union 3c	First Union 3c
Alexander & Baldwin 23d	Armstrong World 6b	Black & Decker 15b	Ceridian 18c	Cooper Industries 9a	Dover 15c	Fisher Scientific 21b	Fleet Financial Group 3
Alex Brown 17a	Arvin Industries 2b	Black (H&R) 17a	Champion Intl 19b	Cooper Tire & Rubber 2c	Dow Chemical 4	Fleetwood Ent's 13b	Flowers Industries 10b
Allegheny Power 24a	Ashland 11a	Boeing 1	Charming Shoppes 8	CoreStates Financial 3a	Dow Jones 20	Florida Progress 24a	FMC 15c
Allegheny Telephony 5	Associates First Capital 17a	Boise Cascade 19a	Charter One Financial 17c	Corning 15a	DPL 24a	Food Lion 10c	Foodmaker 14a
Allegiance 21b	AST Research 18b	Boise Cascade Office Prods 21b	Chase Manhattan 3a	Corporate Express 8	DQE 24a	Ford Motor 2a	
Allergan 12b	AT&T 22a	Borders Group 8	Chesapeake 19b	Costco 8	DRE 24a		
Alliant Techsystems 15a	AT&T 22a	Borg-Warner Automotive 2b	Chevron 11a	Countrywide Credit 17a	DSC Communs 22a		
AlliedSignal 5	Atlantic Richfield 11a	Borg-Warner Security 21e	Chiron 12b	CPC International 10b	DTE Energy 24a		
Allstate 17b	Atmel 9d	Boston Edison 24a	Chrysler 2a	Cracker Barrel 14a	Duke Power 24a		
Alltel 22b	Automatic Data 18c	Bowater 19b	Cigna 17b	Crane 21b	DuPont 4		
Alumax 16a	AutoZone 8	Bradley's 8	Cincinnati Bell 22b	Crestar Financial 3c			
Amdahl 18b	Avery Dennison 15a	Briggs & Stratton 15c	Cincinnati Financial 17b	Crompton & Knowles 4			
Amerada Hess 11a	Avnet 21b	Brinker International 14a	Cincinnati Milacron 15b	Crown Cork & Seal 7a			
America Online 18c	Avon Products 6d	Bristol Myers Squibb 12b	CiNergy 24a	CSX 23b			
America West Holdings 23a	AVX 9d	Brooklyn Union Gas 24b	Circuit City Stores 6b	CUC International 21e			
American Bankers Insurance 17b		Brown Group 6a	Circus Circus 14b	Cummins Engine 2b			
American Brands 6e		Brown-Forman 6c	Cirrus Logic 9d	CVS 12a			
American Electric 24a		Browning-Ferris 21c	Cisco Systems 18c	Cyprus Amax Minerals 16c			
American Express 17a		Bruno's 10c	Citicorp 3a	Cytec Industries 4			
American General 17b		Brunswick 14c	Clayton Homes 13b				
American Greetings 14c		BT Office Products 21b	Ciorox 6d				
American Home 12b		Burlington Coat Factory 8	CMS Energy 24a				
American Standard 13a		Burlington Industries 15d	CNF Transportation 23d				
American States Financial 17b		Burlington Northern Santa Fe 23b	Coastal 11a				
		Burlington Resources 11a	Coca-Cola 6c				
		Butler Mfg 21a					

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

19b 4a ources 17a aRan 4 aRan C&G 16c	I IBM 18b IBP 10b IES Industries 24a IKON Office Solutions 5 Illinois Tool Works 15a Illinova 24a Imation 14c IMC Global 4 InaCom 21e Informix 18c Ingersoll-Rand 15c Ingles Markets 10c Inland Steel 16b Intel 9d Intelligent Electronics 18a Intergraph 18c Interum Services 21e International Flavors 4 International Paper 19b Interstate Bakeries 10b Intimate Brands 8 Intl. Multifoods 10a Iomega 18b ITT 14b ITT Hartford Group 17b ITT Industries 5	Lyondell 4 M Magellan Health Services 12c MagneTek 9a Mallinckrodt 12d Manor Care 12c Manpower 21e Mapco 11a Mark IV Industries 15a Marriott Intl. 14b Marsh & McLennan 17a Marshall & Ilsley 3b Marshall Industries 21b Mattel 14c Maxam 15a May Department Stores 8 Maytag 6b MBNA 3a McCormick 10b McDermott Intl. 15c McDonald's 14a McDonnell Douglas 1 McGraw-Hill 20 MCI Communications 22a McKesson 12a MCN 24b M.D.C. Holdings 13b Mead 19b MedPartners 12c Medtronic 12d Mellon Bank 3a Mercantile Bancorp. 3b Mercantile Stores 8 Merck 12b Merrill Lynch 17a Meyer (Fred) 8 Michaels Stores 8 MicroAge 18a Micron Electronics 18b Micron Technology 9d Microsoft 18c MidAmerican Energy Holdings 24a Miller (Herman) 18a Minnesota Mining 15a Mitchell Energy 11a Mobil 11a Modine Mfg. 2b Mohawk Industries 15d Molex 9d Monsanto 4 Montana Power 24a Morgan (J.P.) 3a Morgan Stanley 17a Morrison Knudsen 21a Morton International 4 Motorola 9b Murphy Oil 11a	Northern Trust 3b Northrop Grumman 1 Northwest Airlines 23a Norwest 3b NovaCare 12c Novell 18c Nynex 22b O Occidental Pet. 11a OfficeMax 8 Ogden 5 OGE Energy 24a Ohio Casualty 17b Ohio Edison 24a Old Kent Financial 3b Old Republic Intl. 17b Olin 4 Olisten 21e Oneok 24b Oracle 18c Orinda Health Corp. 12c Oryx Energy 11a Owens & Minor 12d Owens Corning 13a Owens Illinois 7a P Paccar 2a Pacific Enterprises 24b Pacific Telesis Group 22b PacifiCare Health 12c PacifiCorp 24a PaineWebber Group 17a PanEnergy 24b Parker Hannifin 15a Payless Cashways 8 Payless ShoeSource 8 PECO Energy 24a Penn Traffic 10c Penney (J.C.) 8 Pennzoil 11c Pentair 15a Peoples Energy 24b Pep Boys 8 PepsiCo 6c Perkin-Elmer 9c Petsmart 8 Pfizer 12b PG&E 24a Phelps Dodge 16c PHH 21e Philip Morris 6e Phillips Petroleum 11a Phillips-Van Heusen 6a PhyCor 12c Pilgrim's Pride 10b Pinnacle West 24a Pioneer-Standard 21b Pitney Bowes 18a Pittston Brink's Group 21e Pittston Burlington Group 23c PNC Bank 3a Polaris Industries 15a Polaroid 14c Portland General 24a Pottlatch 19b Potomac Electric 24a PP&L Resources 24a PPG Industries 13a Praxair 4 Precision Castparts 16c Premark Intl. 5 Procter & Gamble 6d Proffitt's 8 ProSource 10a Provident 17b PS Co. of Colorado 24a Public Service Ent. 24a Pulte 13b	R Ralcorp Holdings 10b Ralston Purina 10b Raychem 9a Rayonier 19a Raytheon 9b Read-Rite 9d Reader's Digest 20 Reebok International 6a Regions Financial 3c ReliaStar Financial 17b Republic Industries 21c Republic New York 3a Revco D.S. 12a Revlon 6d Reynolds & Reynolds 18a Reynolds Metals 16a Rhône-Poulenc Rorer 12b Richford Holdings 10a Rite Aid 12a RJR Nabisco 6e Roadway Express 23d Robert Half International 21e Rochester G&E 24a Rockwell International 5 Rohm & Haas 4 Ross Stores 8 Rouge Steel 16b Royal Caribbean Cruises 14c RPM 13a Rubbermaid 15a Ruddick 10c Russell 6a Ryder System 23c Ryerson Tull 21b Rykooff-Sexton 10a Ryland Group 13b S Sabre Group Holdings 18c Safeco 17b Safety-Kleen 21e Safeway 10c Saks Holdings 8 Sallie Mae 17a Salomon 17a Sara Lee 10b Savannah Foods 10b SBC Communications 22b Scana 24a Schering-Plough 12b Schlumberger 11b Scholastic 20 Schuller 19b Schulman (A.) 4 Schwab (Charles) 17a SCI Systems 9d Scientific Atlanta 22a Scripps (E.W.) 20 Seagate Technology 18b Sears, Roebuck 8 Seneca Foods 10b Service Corp. Intl. 21e Service Merchandise 8 ServiceMaster 21e Shaw Industries 15d Sherwin-Williams 13a Shoney's 14a ShopKo Stores 8 Silicon Graphics 18b Smart & Final 10a Smith (A.O.) 2b Smith International 11b Smith's Food & Drug 10c Smithfield Foods 10b Snap-on 15b Software Spectrum 18c Solelectron 9d Sonat 24b Sonoco Products 7b Southern 24a Southern National 3c Southern New Eng. Tel. 22b Southern Union 24b SouthTrust 3c Southwest Airlines 23a Sports Authority 8 Springs Industries 15d	Sprint 22a SPX 15b St. Paul 17b Standard Commercial 6e Standard Federal Bancorp. 17c Standard Products 2b Standard Register 18a Stanley Works 15b Staples 8 Starbucks 10b State Street Boston 3a Stewart & Stevenson 15c Stone & Webster 21a Stone Container 7b Storage Technology 18b Stryker 12d Summit Bancorp. 3a Sun 11a Sun Microsystems 18b SunAmerica 17b Sunbeam 6b SunTrust Banks 3c Supermarkets Gen. 10c Supervalu 10a Sybase 18c Sysco 10a T Talbots 8 Tandem Computers 18b Tech Data 18a Teco Energy 24a Tecumseh Products 13a Tektronix 9c Telephone & Data Sys. 22a Tells 22a Temple-Inland 7b Tenet Healthcare 12c Tenneco 5 Teradyne 9c Terra Inds. 4 Terra Petroleum 11a Texaco 11a Texas Industries 13a Texas Instruments 9d Textron 5 Thomas & Betts 9a Thorn Apple Valley 10b 3Com 18b 3M 15a TIG Holdings 17b Time Warner 20 Times Mirror 20 Timken 15c TJX 8 Toll Brothers 13b Tosco 11a Toys 'R' Us 8 Tracor 9b Transamerica 17b Travelers Group 17a Travelers/Aetna Property 17b Tribune 20 Trinity Industries 23c Trimova 15a TRW 5 Upperware 15a Tycos Intl. 15c Tyson Foods 10b U U.S. Bancorp 3d U.S. Filter 15c U.S. Industries 5 U.S. Office Products 8 U.S. Robotics 22a U.S. Surgical 12d UAL 23a UCAR International 9a UGI 24b Ultramar Diamond Shamrock 11a Unicom 24a Unifon 15d Union Camp 7b Union Carbide 4 Union Electric 24a Union Pacific 23b Union Pacific Resources 11a Union Planters 3c Union Texas 11a	UnionBanCal 3d Unisource Worldwide 21b Unisys 18b United Stationers 21b United Technologies 1 Unitrn 17b Universal 6e Unocal 11a UNUM 11b US West Communications 22b USAir Group 23a USFreightways 23d USF&G 17b USG 13a UST 6e USX-Delhi Group 24b USX-Marathon 11a USX-U.S. Steel 16b V Valero Energy 11a Valrh 5 Valspar 13a Value City 8 Vanstar 18c Varian Associates 9b Vastar Resources 11a Venture Stores 8 VF 6a Viad 5 Viking Office Products 8 Vishay Intertechnology 9d Voit Info. Sciences 21e Vons 10c Vuican Materials 13a W Waban 8 Wachovia 3c Wal-Mart Stores 8 Walgreen 12a Walter Industries 16b Wang Laboratories 18c Warner-Lambert 12b Washington Gas Light 24b Washington Post 20 Washington Water Power 24a Webb (Del) 13b Weirton Steel 16b Wells Markets 10c Wells Fargo 3d Western Atlas 11b Western Digital 18b Western Resources 24a Westinghouse Electric 9a WestPoint Stevens 6a Westvaco 19b Weyerhaeuser 19b Wheelabrator Techs. 24a Whirlpool 6b Whitman 5 Wicor 24b Willamette Industries 19a Williams 24b Winn-Dixie Stores 10c Wisconsin Energy 24a Witco 4 WLR Foods 10b WMX Technologies 21c Woolworth 8 Worthington Inds. 16b WPL Holdings 24a WPS Resources 24a Wrigley (Wm.) Jr. 10b Wyle Electronics 21b XYZ Xerox 18b Yellow 23d Zale 8
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EDITED BY TODDI GUTNER

A BINDING AGREEMENT BEFORE YOU TIE THE KNOT?

Forget the hearts and flowers. These days, more and more couples are deciding how they will divide up their assets even before they utter "I do." With half of the annual 2.3 million new marriages in the U.S. destined to end

in divorce, a growing number of couples realize they must protect their assets in case their marriage dissolves. And many people—especially investors who have reaped higher-than-expected returns from the continuing bull market—aren't willing to let the court decide how to divvy up their war chest. One way to prevent your ex-spouse from taking you to the cleaners is to draw up a binding prenuptial agreement before you tie the knot.

LACK OF TRUST. Most prenuptial agreements simply spell out ahead of time how assets will be divided in case of divorce or death. That could save you the expense and emotional upheaval of a full-fledged divorce proceeding by allowing you to get a simple no-fault divorce. Unless your spouse challenges the "fairness" of the agreement, of course. Prenups can also set ground rules for a marriage. Rex and Teresa Legalley of Albuquerque drew up a 16-page prenup in 1995, which included such explicit directives as "nothing will be left on the floor overnight—unless packing for a trip" and "we'll engage in healthy sex three to five times per week." None of this is enforceable in a court of law, says Raoul Felder, a high-profile Manhattan divorce

lawyer, but it may provide some guidance and may aid communication throughout the marriage.

Not surprisingly, many young couples shun such agreements because they can imply a lack of commitment and trust. Mar-

riage is supposed to be a joint effort, not a division of property. "Some may argue that [prenups] even preordain the marriage to fail," says Edward Winer, a matrimonial lawyer and partner at Moss & Barnett in Minneapolis.

But for folks with \$500,000 or more—especially those who are remarrying and want to preserve that wealth for their kids from a prior marriage—prenups are more accepted. "The first time, you say divorce won't happen to me," says Timothy Tippins, chairman of family law for the New York State Bar Association. "The second time around? Well, it already did."

For those people who own their own businesses and for executives in partnerships, prenuptial agreements are crucial and, in some cases, mandatory. If you should die, a spouse who has no ownership share in the business could be awarded some stake if no prenup exists. It's highly unlikely that the court would force you to transfer complete ownership of the business to a spouse, however, in the event of a divorce. "You may have to share some value of the company with your spouse on an ongoing,

long-term basis," says Winer. But you generally won't lose all your share in the firm or be forced to liquidate, especially if you're the family breadwinner.

BEACH HOUSE. At the very least, your business will be disrupted and your privacy will be invaded during a divorce proceeding. To put a dollar figure on your company's worth, an accountant must sift through your financial records—most of which are not normally available to the general public. "That's like stripping down naked in front of a bunch of strangers," says Donald Schiller of Chicago's Schiller, Du Canto & Fleck, the nation's largest matrimonial law firm.

If you don't have a prenup—and if you can't agree during the divorce proceedings on which partner gets to keep the beach house and how much alimony your spouse should pay—your assets will be divided according to the laws of

the state where you live. This means that in community-property states—California, Idaho, Texas, Washington, and others—both spouses as equal owners of all marital ("community") property, you each get 50% of the equitable-distributions

PRENUPTIAL PACTS



of the U.S.), prop-
ll be split "fairly" by
rt, depending upon
g you were married,
assets were purchased
and so forth.

most cases, your spouse
ed to some share of
alth accumulated dur-
r marriage—even if
ne wasn't directly in-
in earning income—
you have a prenup
ys otherwise.

ort, a prenup lets you
arge of your own fi-
affairs—rather than
a judge or the law of
e determine your fate.
ne agreements, a
s rights increase ac-
to the number of
ne marriage endures.

For example, Bill will pro-
vide Jane with 20% of his an-
nual income if the marriage
lasts more than three years
but less than five; 30% if
more than five years but less
than 10, etc. Sometimes, a
"sunset date" is offered. After
30 years of marriage, for in-
stance, the prenup automati-
cally expires.

INFLATED VALUES. You can't
dictate all of the terms, how-
ever. While you can outline
preferable child-custody
terms, Winer says that a
judge will ultimately decide
what's in the best interest of
the child. Similarly, a high-
earning wife can waive her
right to alimony in the
prenup, but if she's no longer
a big-time wage earner when

the divorce is finalized, she
can't be left destitute.

Be extra careful when di-
vulging your assets. Full fi-
nancial disclosure is absolute-
ly essential, says Felder, so
that the party giving up
rights knows exactly what is
being forfeited. Any omission
could invalidate the entire
agreement. Assets like real
estate and jewelry should be
appraised by a professional.
To prevent your spouse from
arguing later on that you un-
derstated your assets, Felder
suggests inflating them by
10% to 20%.

By all means, don't wait
till the last minute to broach
the subject. It takes at least
three weeks to iron out the
details, and if you sign the

in court. To ensure that yours
will, too, consult a local fami-
ly-law or matrimonial lawyer
(laws vary widely from state
to state). Ask friends for rec-
ommendations or consult *Best
Lawyers in America*, a ref-
erence book available in most
libraries. To prevent any
claims of partiality later on,
both you and your intended
should seek separate legal
counsel. "You might pay for a
fiancé's attorney if you're the
more affluent partner," says
Violet Woodhouse, a lawyer
in Newport Beach, Calif.

UPDATING. If you never bot-
tered to get a prenup before
you were married, you may
still be able to get one now.
Loosely referred to as pre-
divorce papers, postnuptial
agreements are really belated
prenups. Valid in many
states, such as Illinois and
New York, these agreements
cover the same ground as
most separation agree-
ments—except the couple
doesn't separate. They arise,
says Tippins, generally as a
reconciliation effort when a
marriage breaks down. In
one recent case, a woman
was caught having an affair
by her husband. She wanted
to reconcile. He refused—un-
til she signed a postnup.

Even if you signed what
you thought was a fair
prenup, it's a good idea to
update it every five years or
so to reflect changes in your
income and asset holdings.
Donald Trump and Marla
Maples signed a prenup be-
fore they tied the knot in
1993. Since then, they've up-
dated it at least once.

Romantic, they're not. But
prenuptial agreements can
save you heartache and ex-
pense down the road. Mar-
riage is, among other things,
a financial partnership, says
Woodhouse. Addressing and
dealing with such practical is-
sues early in the relationship
may actually help preserve
your marriage. If not, at least
you can be confident that
your interests and assets
will be protected over
the long run.

Barbara Hetzer

You Need a Prenup if You...

- Own a business
- Have children from a previous marriage
- Have a lot of assets
- Are supporting your spouse through professional school
- Have serious prospects of success

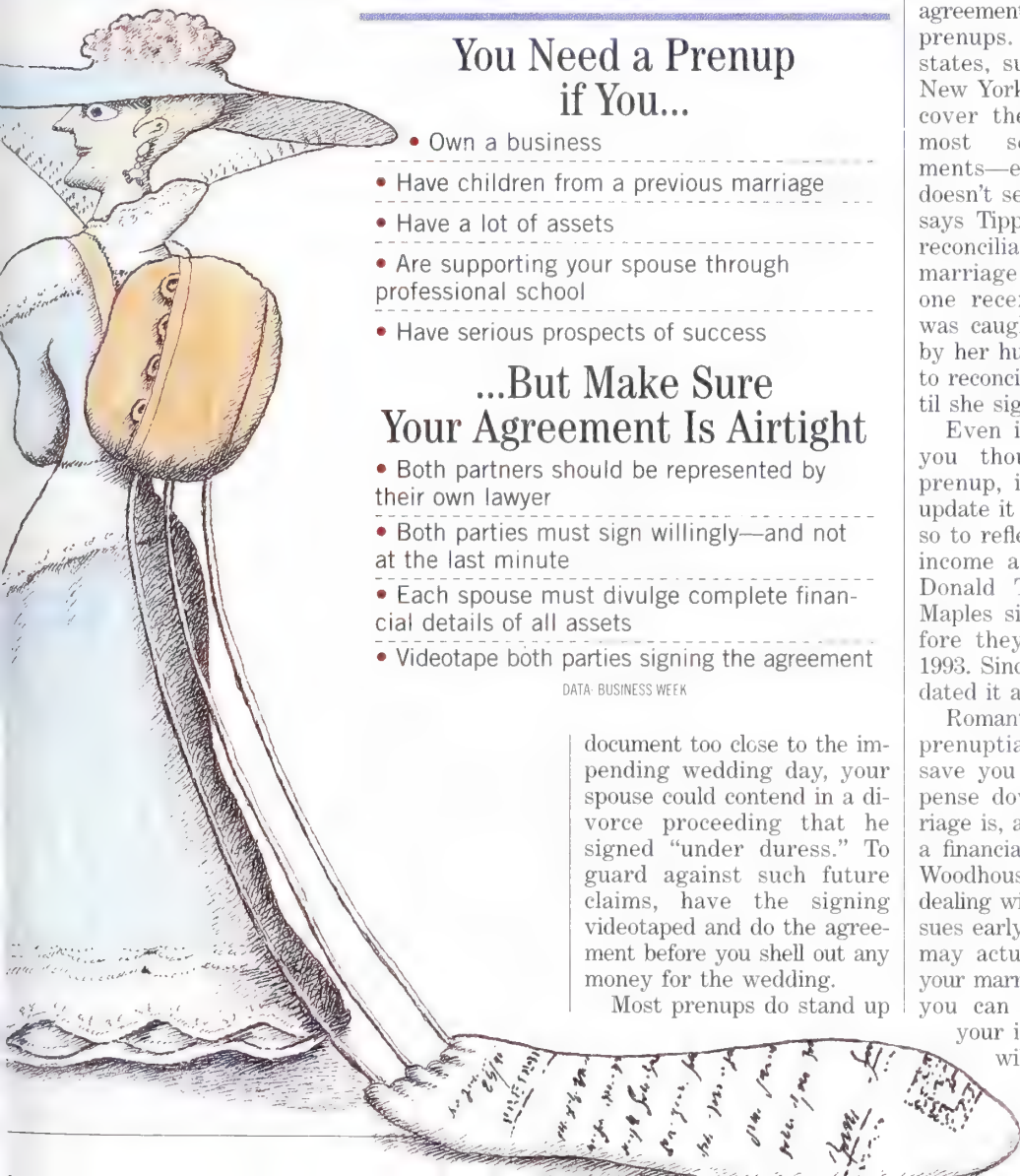
...But Make Sure Your Agreement Is Airtight

- Both partners should be represented by their own lawyer
- Both parties must sign willingly—and not at the last minute
- Each spouse must divulge complete financial details of all assets
- Videotape both parties signing the agreement

DATA: BUSINESS WEEK

document too close to the im-
pending wedding day, your
spouse could contend in a di-
vorce proceeding that he
signed "under duress." To
guard against such future
claims, have the signing
videotaped and do the agree-
ment before you shell out any
money for the wedding.

Most prenups do stand up





THE EV1: Its engine whines, and the brakes click—but performance isn't bad

Instead of an instrument panel, there are warning lights and digital gauges strung out below the windshield, which add to the spacious feeling in this tiny two-seater.

There's no glove box, but the trunk space is generous. The center console looks normal, with the usual controls for heating, A/C, and radio (however, if you use these creature comforts, especially the A/C, you're going to use up battery power, sacrificing distance). There also are a few unfamiliar buttons. One, for example, changes the vertical bar showing the remaining charge to one that displays instantaneously how much power the car is using to accelerate or perhaps climb a hill. One big difference is the absence of an ignition key. You punch in a five-digit PIN and then hit the "Run" button.

WEDNESDAY. My only appointment today is lunch with the folks at Edison EV, the company GM has contracted with to install chargers for people who lease an EV1. My hidden agenda: Edison has 240-volt charging stations, so I can top off with a quick charge. The company is slowly building public charging stations. There are 50 around Los Angeles, and there will be 300 more by yearend. Many of the facilities are being paid for by businesses such as Wal-Mart Stores and McDonald's that are trying to promote an environmentally friendly image.

You can only lease the car, not buy it, and it's only avail-

able in California and Arizona. The sticker says \$33,995, but there's a federal tax credit and a \$5,000 rebate from our local air-pollution agency in Los Angeles that bring monthly payments down to around \$480. And with Edison's special EV rates of about 4¢ a kilowatt hour, fuel costs are about a quarter of a conventional car's (for every 1,000 miles, the EV1 would cost \$13.62, vs. \$50 for a normal car getting 25 miles per gallon).

THURSDAY. My 15-mile round trip is all I drive today. However, I'm worried about tomorrow, when I know I've got to get at least 60 miles out of it.

FRIDAY. Uh-oh. The range gauge says 47 miles, but I go anyway. Immediately, a patrol car waves me over, but the officer just wants to see how I like the car. After a few downhill miles, I'm confident I can make it, and when I reach my destination, 23 miles away, the display says I have 61 miles left of battery charge. I get home with plenty of power to run to the drugstore. I'm closing in on the magic 70-mile mark that the EPA ratings promise between charges.

SATURDAY, SUNDAY. This is the perfect city runabout for short trips to the grocery or dry cleaner. But I'm a bit tired of my newfound conservative style, with precise accelerations and slow, coasting stops, aimed at saving power. So I peel away from a few stoplights and am amazed by the power. This is no golf cart: The car-magazine road testers are getting 0-to-60 mph in less than 8 seconds.

MONDAY. By now, I'm pretty much sold on the concept. The EV1 is ideal as a second or third car, especially if you want to make a statement. Sure, it's a bit pricey, and you have to map out your day if you go beyond your ordinary commute. But then again, whoever said that being environmentally correct was easy? *Larry Armstrong*

WEEK BEHIND THE WHEEL OF AN ELECTRIC CAR

Correspondent Larry Armstrong in Los Angeles spent a week kicking tires of General Motors EV1 electric car. This is his diary:

MONDAY. A shiny red EV1 (Electric Vehicle) arrived this morning. It was delivered to me on a truck so

thought I already knew about driving.

TUESDAY. After a charge, the range gauge—a digital read-out of how much mileage you can expect from the charge remaining in the batteries—says only 27 miles. But after I drive 11 miles, it registers

35. That's probably because I'm

in the "coast-down" mode. That way, coasting and braking recharge the battery. It also makes the car whine more.

That brings me to sounds. This car doesn't sound like your ordinary car. What you hear is more like the whine of a turbine, rising in pitch and loudness as you speed up. I found it annoying, mostly because I wasn't used to it. Other unusual sounds include the chirp instead of click of the turn signals. When you step on or off the brake, there's a click from the rear of the car. The car beeps when you back up, and there's a second, softer horn to alert pedestrians of your stealthy presence.

to strand me with an uncharged battery. The first thing I notice on my 7.5-minute home is that, with its distinctive shape, is a head-

The only dicey moment when a dude in a black Porsche 911 Turbo and out of traffic to the car from every vantage point. Then alongside, rolls down slow, and wants to 60 mph.

home, I pull the 120-volt convenience charger—no equipment—out of the wall and plug it into my outlet. It turns out, that you need to buy a 240-volt charger to use the 120-volt shortens the life of every pack, which will back thousands of dollars to replace. Cost of a charger: \$1,995, or monthly on a lease, and \$895 to install.

A dude in a black Porsche wanted to talk car. So did the cop who pulled me over

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Sun designed the first intranet back when people thought intranet was a typo.



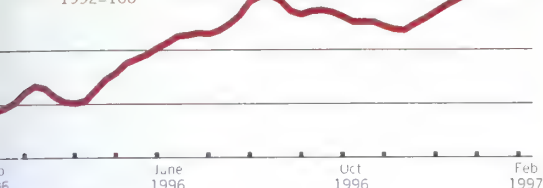
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Business Week Index

PRODUCTION INDEX

Change from last week: +0.2%
Change from last year: +9.2%

PRODUCTION INDEX
Feb. 8=135.9
1992=100



Production index edged down for the second week in a row by falling in the week ended Feb. 8. However, before calculation of the four-week moving average, the index rose to 135.7, from 135.5. On a seasonally adjusted basis, levels of coal, rail-freight traffic, and steel increased. Milder weather in the latest week contributed to a sharp decline in electric power output, and a slowdown caused a decline in auto production.

FINANCIAL INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STOCK PRICES (2/14) S&P 500	808.48	789.56	23.4
GOVERNMENT BOND YIELD, Aaa (2/14)	7.26%	7.34%	5.8
COMMODITY MATERIALS PRICES (2/14)	108.0	109.2	-1.8
CREDIT DEFAULTS (2/7)	NA	NA	NA
OUTSTANDING DEBT (2/5) billions	NA	NA	NA
M2 MONEY SUPPLY (2/3) billions	\$3,860.8	\$3,858.2r	4.9
UNEMPLOYMENT CLAIMS (2/8) thous.	309	324r	-18.9

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept.

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
MORTGAGE FUNDS (2/18)	5.55%	5.07%	5.20%
GOVERNMENT BOND (2/19) 3-month	5.38	5.40	5.16
GOVERNMENT BOND (2/19) 3-month	5.34	5.36	5.17
MORTGAGE (2/14) 30-year	7.85	7.89	7.24
MORTGAGE (2/14) one-year	5.81	5.74	5.40
MORTGAGE (2/18)	8.25	8.25	8.25

Sources: Federal Reserve, HSH Associates, Bloomberg Financial Markets

1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

BUDGET

Feb. 24, 2 p.m. EST ▶ The U.S. is likely to report a surplus of \$1 billion for January, a bit lower than the \$1.5 billion surplus of a year earlier. The median forecast of economists is a \$1 billion surplus, says the MMS International, one of The Hill Companies.

CONSUMER CONFIDENCE

Feb. 25, 10 a.m. EST ▶ The Conference Board's index of consumer confidence fell to 115.8 in February, down from 116.8 in January. However, the level of the February index still shows that consumers are quite confident with the economy's performance.

HUMPHREY-HAWKINS TESTIMONY

Wednesday, Feb. 26, 10 a.m. EST ▶ Federal Reserve Chairman Alan Greenspan is scheduled to give his semiannual testimony on monetary policy to the Senate Banking Committee. Greenspan will report the Fed's central-tendency forecasts for economic growth, inflation, unemployment, and money-supply growth for 1997. Greenspan will testify to the House Banking Committee on Feb. 27.

DURABLE GOODS ORDERS

Thursday, Feb. 27, 8:30 a.m. EST ▶ New orders for durable goods likely increased 1% in January. That follows two steep declines, including a 1.9% drop in December.

EXISTING HOME SALES

Thursday, Feb. 27, 10 a.m. EST ▶ The MMS median forecast projects existing homes probably sold at an annual rate of 3.9 million in January, about even with the 3.87 million sold in December.

GROSS DOMESTIC PRODUCT

Friday, Feb. 28, 8:30 a.m. EST ▶ Real GDP probably grew at a revised annual rate of 4.4% in the fourth quarter, says the MMS forecast. That's slightly down from the 4.7% gain initially reported by the Commerce Dept., but still faster than the 2.1% increase in the third quarter. The revision will likely show that inventories grew slower than first thought.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (2/15) thous. of net tons	2,078	2,033#	1.2
AUTOS (2/15) units	128,604	125,596r#	5.7
TRUCKS (2/15) units	128,390	131,018r#	5.7
ELECTRIC POWER (2/15) millions of kilowatt-hrs.	NA	63,054#	NA
CRUDE-OIL REFINING (2/15) thous. of bbl./day	NA	13,235#	NA
COAL (2/8) thous. of net tons	21,398#	20,248	20.9
LUMBER (2/8) millions of ft.	496.9#	507.3	22.8
RAIL FREIGHT (2/8) billions of ton-miles	27.2#	26.4	14.3

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPAl, SFPAl, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (2/19) \$/troy oz.	346.250	337.700	-12.7
STEEL SCRAP (2/14) #1 heavy, \$/ton	146.50	146.50	1.3
COPPER (2/14) ¢/lb.	111.5	110.8	-5.7
ALUMINUM (2/14) ¢/lb.	74.8	77.5	-1.6
COTTON (2/15) strict low middling 1-1/16 in., ¢/lb.	69.98	70.86	-14.4
OIL (2/18) \$/bbl.	22.14	22.04r	5.2
CRB FOODSTUFFS (2/18) 1967=100	238.28	235.18	1.9
CRB RAW INDUSTRIALS (2/18) 1967=100	345.19	343.47	5.3

Sources: London Wednesday final setting, Chicago market, *Metals Week*, *Metals* market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (2/19)	124.39	123.83	105.16
GERMAN MARK (2/19)	1.70	1.68	1.46
BRITISH POUND (2/19)	1.51	1.63	1.54
FRENCH FRANC (2/19)	5.74	5.68	5.01
ITALIAN LIRA (2/19)	1690.4	1649.0	1569.3
CANADIAN DOLLAR (2/19)	1.36	1.36	1.37
MEXICAN PESO (2/19)	7.777	7.790	7.535
TRADE-WEIGHTED DOLLAR INDEX (2/19)	105	104.3	95.1

Sources: Major New York banks Currencies expressed in units per U.S. dollar, except for British pound in dollars Trade-weighted dollar via J.P. Morgan

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Issue Date:
April 28, 1997

Ad Closing Date:
March 17, 1997

Edition:
North American

1996 Fall MRI, Business Week Adjusted Audience

BusinessWeek

Business Week

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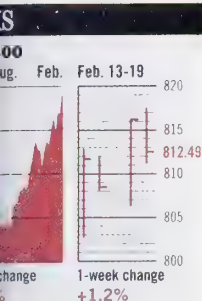
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Business Week (ISSN 0007-7135) published weekly, except for one issue in January, by The McGraw-Hill Companies, Inc. Executive Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020 U.S. subscriber rate \$49.95/year or \$69/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post Publications Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Highgate N

Investment Figures of the Week



STOCKS

Dow Jones industrials moved to a classier neighborhood—0 block of Wall Street. The first cleared the millennial Feb. 13, slipped and back for a 7067 high on Feb. 13. Stocks may run into resistance at these levels. Price-earnings ratio for Standard & Poor's 500 is 18.8, while the fair value for the current level of interest rates is 15.7. Even if the bull takes a breather, there has been one heck of a run. The Dow's up 8.9%; S&P 500, 9.7%. Mid-cap and small cap stocks trail the big boys they've done since last

U.S. MARKETS	Latest	% change	
		Week	Year
Dow Jones Industrials	7020.1	0.8	27.6
NASDAQ Combined Composite	1365.6	0.5	25.2
S&P MidCap 400	269.0	1.2	18.3
S&P SmallCap 600	148.6	1.8	19.6
S&P SuperComposite 1500	174.0	1.2	24.4

SECTORS	Latest	% change	
		Week	Year
Bloomberg Information Age	249.7	0.1	21.5
S&P Financials	95.8	3.6	44.3
S&P Utilities	199.4	-0.3	-1.7
PSE Technology	269.2	2.5	27.2

FOREIGN MARKETS	Latest	% change	
		Week	Year
London (FT-SE 100)	4357.4	1.2	16.4
Frankfurt (DAX)	3233.8	0.5	34.8
Tokyo (NIKKEI 225)	18,599.1	1.0	-10.2
Hong Kong (Hang Seng)	13,106.3	-2.6	13.0
Toronto (TSE 300)	6248.9	1.4	24.3
Mexico City (IPC)	3875.0	1.9	30.2

FUNDAMENTALS	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.78 %	1.84 %	2.13 %
S&P 500 P/E Ratio (Last 12 mos.)	21.4	20.6	18.8
S&P 500 P/E Ratio (Next 12 mos.)*	17.2	16.7	NA
First Call Earnings Revision*	-0.34 %	-0.41 %	NA

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day average	701.4	698.1	Positive
Stocks above 200-day average	73.0 %	70.0 %	Negative
Options: Put/call ratio	0.58	0.62	Negative
Insiders: Vickers Sell/buy ratio	1.78	1.76	Positive

Data: Bloomberg Financial Markets; *First Call Corp.

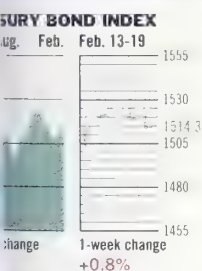
BEST-PERFORMING GROUPS	Last month %	Last 12 months %
Savings & Loans	27.1	111.7
Invest. Banking/Brokerage	24.8	84.5
Shoes	16.0	70.2
HM0s	15.4	65.9
Trucking	15.3	62.7

WORST-PERFORMING GROUPS	Last month %	Last 12 months %
Oil & Gas Drilling	-15.6	-20.2
Oil Exploration & Prod.	-15.4	-19.0
Oil-Well Equip. & Svcs.	-9.1	-17.3
Communications Equip.	-8.1	-15.3
Engineering & Constr.	-7.1	-12.1

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness			Price	1-month change
IBM			145 1/4	-21 3/4
Motorola			62 1/8	-5 3/8
Atmel			38 1/2	-5 3/8
DuPont			109 1/2	-1 1/4
Read-Rite			27 1/8	-3 5/8
Ascend Communications			62 3/8	-16 3/8
Decline ahead? Stocks with most significant selling on price strength			Price	1-month change
Intel			154 3/8	9 3/8
Microsoft			97 3/8	6 3/8
Sun Microsystems			33 3/4	1 3/8
Amgen			59 1/2	5 1/2
Worldcom			27	1
Dell Computer			74 3/8	11 1/16

INTEREST RATES



Data: Bloomberg Financial Markets

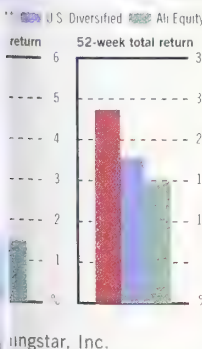
KEY RATES	Latest	Week ago	Year ago
MONEY MARKET FUNDS	4.96	4.95	4.97
90-DAY TREASURY BILLS	5.09	5.14	4.99
6-MONTH BANK CDS	5.01	5.01	4.61
1-YEAR TREASURY BILLS	5.44	5.52	5.09
10-YEAR TREASURY NOTES	6.31	6.43	6.01
30-YEAR TREASURY BONDS	6.58	6.71	6.39
LONG-TERM AA INDUSTRIALS	6.99	7.15	6.81
LONG-TERM BBB INDUSTRIALS	7.39	7.50	7.24
LONG-TERM AA TELEPHONES	7.27	7.39	7.17

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond		30-yr. bond	
	Latest week	Last week	Latest week	Last week
GENERAL OBLIGATIONS	4.75%	4.81%	5.35%	5.41%
PERCENT OF TREASURIES	75.36	75.03	81.39	80.67
TAXABLE EQUIVALENT	6.88	6.97	7.75	7.84
INSURED REVENUE BONDS	4.82	4.92	5.54	5.64
PERCENT OF TREASURIES	76.47	76.75	84.28	84.09
TAXABLE EQUIVALENT	6.99	7.13	8.03	8.17

MUTUAL FUNDS



Data: Vanguard, Inc.

EQUITY FUNDS

Leaders		Laggards	
Four-week total return	%	Four-week total return	%
American Heritage	21.3	Pin Oak Aggressive Stock	-12.2
Lexington Troika Russia	20.5	GT Glob. Natural Res. A	-11.6
Merrill Mid. East/Africa A	12.6	Fidelity Sel. Natural Gas	-11.2
Fidelity Sel. Brokerage	11.9	Van Wagoner Emerging Gr.	-11.2
SIFE Trust I	9.5	TW/DW Mid-Cap Equity	-8.7
Leaders		Laggards	
52-week total return	%	52-week total return	%
Vontobel Eastern Europ. Eq.	86.7	United Svcs. Gold Shares	-40.9
Interactive Inv. Tech Val.	67.5	Steadman Technology Grth.	-38.7
State St. Res. Glob. Res. A	66.1	DFA Japanese Small Co.	-34.4
Portico MicroCap Instl.	61.0	Fidelity Japan Small Co.	-31.6
Warburg Small Co. Val. Com.	50.5	Matthews Korea	-30.2

EQUITY FUND CATEGORIES

Leaders		Laggards	
Four-week total return	%	Four-week total return	%
Financial	7.6	Natural Resources	-3.6
Latin America	7.3	Small-cap Growth	-3.0
Health	5.4	Technology	-2.9
Diversified Emerging Markets	3.8	Pacific ex-Japan	-2.3
Precious Metals	3.7	Mid-cap Growth	-0.9
Leaders		Laggards	
52-week total return	%	52-week total return	%
Financial	37.6	Japan	-18.0
Real Estate	32.8	Precious Metals	-12.0
Latin America	32.0	Diversified Pacific	-2.9
Large-cap Blend	24.4	Pacific ex-Japan	1.4
Large-cap Growth	24.1	Communications	7.1

of market close Wednesday, Feb. 18, 1997, unless otherwise indicated. Industry S&P 500 companies only. Fundamentals, technical indicators, Bloomberg mon-

ey flow analysis, and mutual fund returns are as of Feb. 17. For a more detailed explanation, write to us or E-mail figures@businessweek.com. NA=Not available r=revised **Vanguard Index 500 Fund

THE NEW STAKES IN U.S.-CHINA RELATIONS

The man who brought global capitalism to China is dead. Deng Xiaoping left behind a society marked by rising living standards, social inequality, and growing nationalism. Deng's hand-picked successor, Jiang Zemin, reigns rather than rules within a collective leadership that includes military and political hard-liners as well as economic reformers. They hope to use China's booming economy to project power on the international scene while maintaining their post-communist authority at home. Therein lies the quandary for U.S. policy.

The U.S. expects China's market economy to lead to democracy, human rights, and the smooth integration of the giant nation into the global system. Evidence that this may take a long time is hardening Washington's attitude toward China. Environmentalists are blocking Export-Import Bank loans to U.S. corporations for China's giant Three Gorges Dam. The conservative *Weekly Standard*, in an issue devoted solely to China, basically calls for a new cold war against it. The director of the U.S. Defense Intelligence Agency describes China as a "threat" to future U.S. interests. And the possibility that the Chinese Embassy was involved in funneling money to the Democratic National Committee during the recent Presidential election has Washington's blood up. It is no accident that the hot new book inside the beltway is *The Coming Conflict with China*.

Things threaten to spiral out of control. Hong Kong's transfer to Chinese control in July will be one flash point. China's threat to water down Hong Kong's civil liberties has already angered Congress. Should there be a failure of Beijing to live up to its promise of full autonomy for Hong Kong, U.S.-Sino relations could sour fast (page 30).

Only strong personal commitments from both Jiang and Clinton can carry the two nations over the rocky period ahead. At upcoming summits, the two leaders should express the need for solid ties between the U.S. and China. Both Deng and George Bush fought to keep their hard-liners at bay. Jiang and Clinton must do the same. The two countries must engage at a pragmatic, realistic level. They don't have to be friends, but they must not become enemies.

CAMPAIGN FINANCE CAN BE REFORMED

The scandal of campaign finance is beginning to erode the very foundations of democratic life in America. The buying and selling of access and influence in Washington is generating a deep disillusionment among individual voters. Feeling powerless in the face of enormous special interest money, they are boycotting elections in ever-greater numbers. Less than half the electorate bothered to vote in the latest Presidential election.

It is true that the campaign finance problem is extremely complex, made worse by an unfortunate 1976 Supreme Court decision that equated free spending with free speech, wrapping campaign spending in the Constitution's First Amendment, the court made any effort at reform that much more difficult. Ideally, a bipartisan pact between the Democratic and Republican National Committees that would cap spending could solve the problem. But the normal political process is clearly not about to deliver such a solution. Campaign finance reform must be taken out of the hands of politicians and placed within a bipartisan commission. Run-away campaign spending is no less a national problem than Social Security. The closing of military bases, both of which were addressed by bipartisan commissions. Not that there is any shortage of suggestions on how to curb campaign spending. *BUSINESS WEEK* provides a list of what is possible without changing the constitution or providing public finance (page 36).

In the meantime, President Clinton should avoid the seemingly and hypocritical posture of attending fancy millennial fund-raising dinners while lecturing Congress on overhauling campaign finance laws. He should be using the bully pulpit of his office to take the lead in reforming campaign finance. He has every right to expect a little moral leadership from the President of the United States, not just another politician.

THE RIGHT CAPITAL-GAINS TAX CUT

The whole debate about cutting capital-gains taxes at this time is surreal. The stock market is at a record high, growth is running at a 3.4% clip, and unemployment is down to about 5%. The initial public offering market is booming, megamergers are being financed with ease. Who in the economy is having trouble raising capital? Where is the shortage?

But no matter. A capital-gains tax cut is on its way, and to the alignment of political stars in Washington. So let's make the right cut. First, don't tinker. Just cut the tax rate and simplify. President Clinton and some members of Congress propose to target capital-gains tax cuts on houses, farms, businesses, and a whole host of other assets. The goal of capital-gains taxes should be to promote overall growth by getting cuts rewards different political constituencies and influencing investment decisions. It's good politics but bad economics.

Second, tie any tax cut to long-term asset growth. People who are willing to hold onto their stocks for several years and provide steady capital for investment should get a bigger capital-gains tax cut than people who hold stocks for shorter periods.

Third, weigh any tax cut against the need to balance the budget, which would do more than anything else to lower interest rates and provide capital. With stocks so high, a capital-gains tax cut would, at first, send billions into the Treasury coffers. But over time, a cut in capital-gains taxes would cost the government serious money.

If Washington insists on a capital-gains tax cut, it should be broad, simple, and focused on growth, not politics.

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(July 1996)

"SHO'S 3.4-LITER 4-CAM V-8, A MARVEL OF COMPACTNESS AND SMOOTHNESS, MAKES 235 BHP WITH LITTLE STRAIN." *Road & Track*
(July 1996)

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(April 29, 1996)

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(June 19, 1996)

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BOB RUBIN'S AGENDA



AT&T'S GAME PLAN

BusinessWeek



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THE BIOTECH CENTURY



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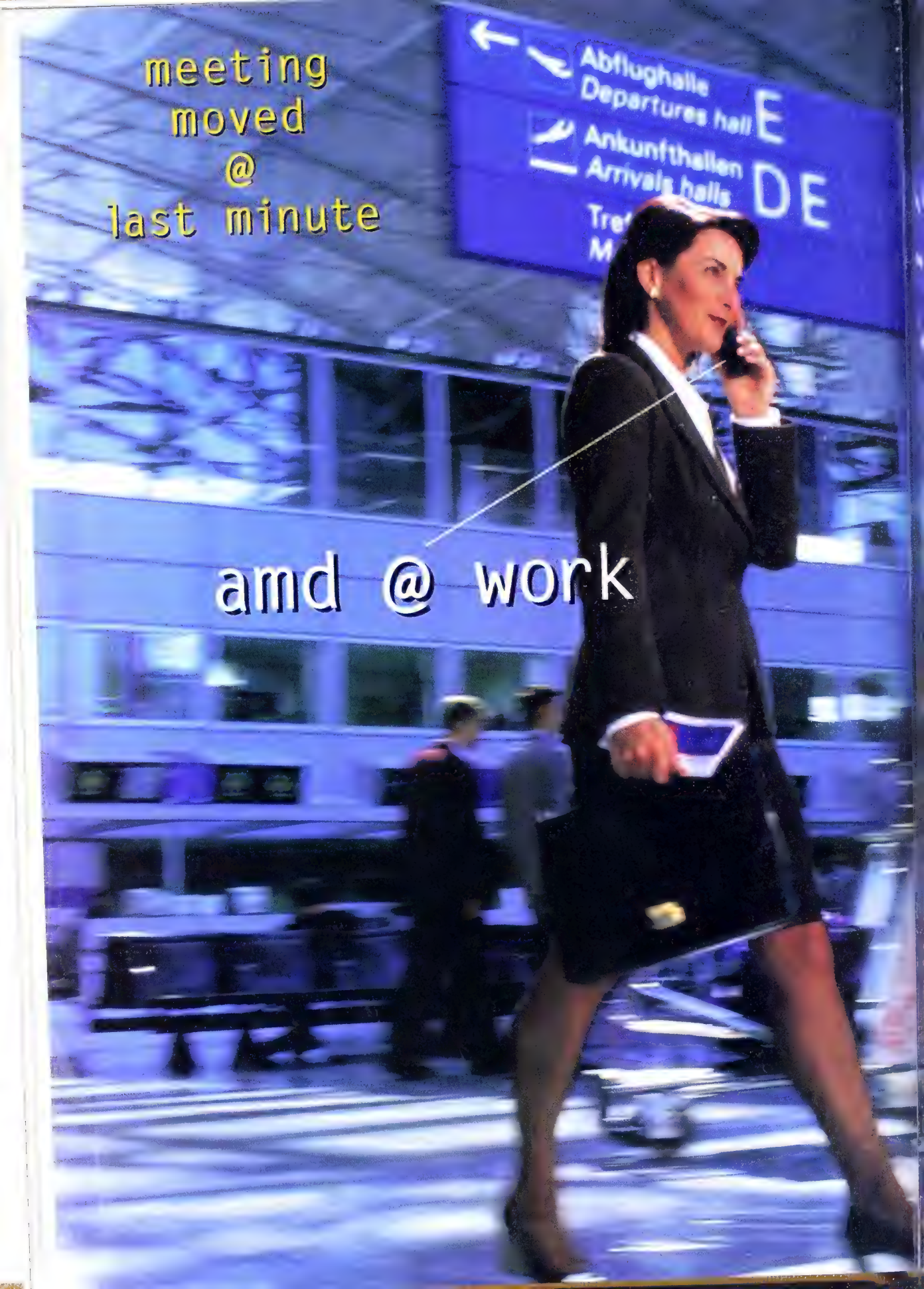
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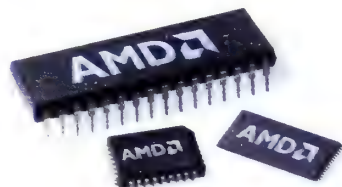
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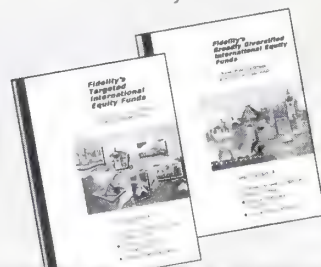
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Europe Fund	21.86%	13.78%	11.80%
Hong Kong and China Fund	36.76%	—	33.47%*
Latin America Fund	26.80%	—	7.76%*
Nordic Fund	37.44%	—	29.55%*

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Average annual total returns for the period ending 12/31/96 are historical and include changes in share price, and reinvestment of dividends and capital gains, and the effect of the funds' 3% sales charge for all funds listed except Diversified International and Worldwide, which do not have sales charges. Europe Fund has a redemption fee of 1.0% on shares held less than 90 days. Hong Kong and China, Latin America, and Nordic Funds have a redemption fee of 1.5% on shares held less than 90 days. Share prices and returns will vary. *Life of Fund as of fund inception date for Diversified International is 12/27/91, 5/30/90 for Worldwide, 11/1/95 for Hong Kong and China, 4/19/93 for Latin America and 11/1/95 for Nordic. Fidelity Distributors Corporation.

COVER STORY

THE BIOTECH CENTURY

Gene warfare on disease? Growing plastic by the acre? DNA computers? The possibilities are breathtaking *page 75*



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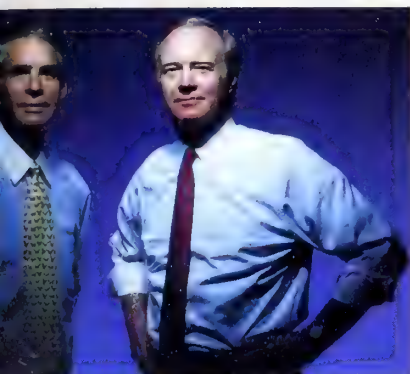
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Don't be afraid of genetic research
Let capitalism rule in China

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Up Front

EDITED BY LARRY LIGHT

PROFIT & GLOSS

AIN'T THAT A KICK IN THE PANTS

IT'S IRONIC LEVI STRAUSS HAS been on a financial tear. Levi just booked 10 straight years of record sales. And the company, known for its do-gooder image, last year announced an unusually generous incentive plan that could give each employee a bonus of up to one year's pay in 2001 if Levi hits financial targets. So employees got a jolt Feb. 18 when the world's largest apparel company said it must slash 20% of its 5,000 U.S. salaried jobs to cut escalating expenses by \$80 million.

More bad news might be on the way. A source close to the San Francisco-based company says that plant closings could be in Levi's future. Layoffs of hourly workers may result. Levi says only that no decision has been made on those issues. Internal memos obtained by BUSINESS WEEK detail what



LEVI'S OFFICES: *Cuts ahead*

the company's problems are.

The memos point to increased competition from designer and private-label brands sold at J.C. Penney and Sears. These memos also blame Levi for taking on too many costly initiatives, such as the revamping of customer service. Demand has also flattened for jeans. In an unusually frank statement for Corporate America, one memo says: "We lost our focus in the U.S. business and didn't prioritize well." *Linda Himmelstein*

THE LIST BACKWATER BOURSES RISE

You think the U. S. stock market has been hot? Well, Moscow's leading index far outpaces the Dow Jones industrial average (up 9.1% this year) and the Standard & Poor's 500-stock index (up 9.6%). The big gainers aren't from the major industrial countries—witness Japan's Nikkei.

BEST EXCHANGES

COUNTRY	RETURN*
RUSSIA	68.9%
TURKEY	49.9
GREECE	41.5
BRAZIL	28.5
MEXICO	19.2

WORST EXCHANGES

COUNTRY	RETURN*
AUSTRIA	-1.2%
NEW ZEALAND	-4.3
SPAIN	-5.1
JAPAN	-5.9
THAILAND	-11.8

*Percentage return in U.S. dollars from the country's leading stock index
Year-to-date, as of 02/25/97

DATA: BLOOMBERG FINANCIAL MARKETS

TALK SHOW "Be annoyed. Be angry. God knows I am. But it's time to move on."

—Walt Disney CEO Michael Eisner, to shareholders irate over the exit package of Michael Ovitz

CONTRABAND WAGON

SMUGGLED CIGARS ARE EXPLODING

SMUGGLED STOGIES ARE increasingly the souvenir of choice for American tourists abroad. With the boom in cigar smoking, Cuban cigars—banned in the U.S. since 1962—are sold more and more to visiting Americans in Canada, Mexico, and the Caribbean. The La Casa del Habano shop in Antigua, for instance, says Americans generally account for 80% of sales, buying roughly 12,000 Cuban cigars a week. At some cigar outlets in Toronto, obliging clerks cleverly package Havanas for Americans to fool Customs agents.

Such ruses, though, don't always work. The number of seizures by U.S. Customs is up dramatically: 1,372 involving 96,216 cigars valued at \$1.14 million last year, vs. just 221 incidents in 1994

with 24,360 cigars worth \$142,000. Usually, the goods are destroyed. Smugglers carrying large amounts of cigars could face up to 10 years in prison and \$100,000 in fines. While Fidel Castro has been smoking himself, his economically ailing island has exported 70 million cigars in 1996, which Cuban officials say is half the demand.

DeG...



POOR SALESMAN: He has

AFTERLIVES

FOR ALI, ROUND 3 IN THE CHICKEN BIZ

MUHAMMAD ALI IS AIMING TO go into the chicken business again, this time in the Muslim world, where the ex-boxer is a beloved figure. The former world heavyweight champ, who converted to Islam in the 1960s, is stricken with Parkinson's Disease. But he has remained active in business ventures, licensing his name for cologne and clothing.

Ali wouldn't own the restaurants. The deal under negotiation would involve Egypt's Behairy family licensing his name for a fee. Ali's lawyer says that the two

sides are still far apart. On their part, the Behairy family confident a deal will be struck. The family wants to open its first chicken joint, costing \$1 million, in Cairo. From there, they hope to expand throughout the Mideast. The area there will have a feel similar to Planet Hollywood, except with no liquor or pork served.

Ali's restaurant chain isn't as stellar as his boxing record.

Barry, in 1975, his attempt to start a chain of fast-food restaurants fizzled. The lack of funds for a second venture led to the restaurant's closure. Muhammad Ali's Rotisserie restaurant in New York (he got the name for his name) recently closed. Silver Spring, Md., after 10 years. *Gauch and Sanders*



THE CHAMP: Nile next



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Up Front

CONTINENTAL RIFT

EUROPE'S SLIPPERY LINGUISTIC SLOPE



THE ALPS: English spoken here

NOVICE SKIERS WHO SPEAK English often have had to endure a barely understandable Franglais when visiting the French Alps. Many English ski teachers were denied work permits, their teaching accreditation unrecognized by French authorities.

Now, the European Commission in Brussels has struck a blow for linguistic diversity—and work freedom—on the slopes. Because

the single European market is supposed to ensure the free movement of goods and labor, French authorities must for the first time recognize all other European ski diplomas. The EC's decision also applies to mountain guides and scuba and skydiving instructors.

French ski instructors, who train for five years before receiving diplomas, still insist that many non-French counterparts are inexperienced and present a safety risk. Says Jean-Marie Chofel, a staffer at the Meribel resort: "Skiing on the mountain is dangerous, not like walking on the sidewalk." Brussels bureaucrats agree that foreign ski instructors still should pass an "aptitude" test out on the slopes. But, says a commission official, proficiency in French isn't required anymore. *Bill Echikson*

IPO TURKEY WATCH

MARKS CAN'T SHAKE THOSE YULE BLUES

JEWELERS, LIKE MOST OTHER retailers, found the holiday season less than merry. But their stocks were hurt as badly as newly public Marks Bros. Jewelers. Its shares, offered in May at 14, had doubled by autumn, then dove when analysts estimated lusterless fourth-quarter earnings, which have yet to be reported. While profitable, Marks is still languishing at 25¢ below its IPO price. Other jewelry

NO SPARKLE



chains dropped, too, though not as much, and they have rebounded.

Why is Wall Street singling out Marks (\$131 million in sales) for punishment? Steven Kernkraut of Bear, Stearns says investors are more

forgiving toward large chains, such as Zale (1,200 stores), than of small fry such as 170-outlet Marks. Plus, the big boys had the money for national TV ad campaigns. Still, Marks believes it will prevail by adding 28 stores in 1997.

It is also testing Mother's Day ads whose concept may resurface at yearend. *Lisa Sanders*

DRAWN & QUARTERED



SILICON SAGAS

OUTDOOR AD, INSIDE JOKE

SILICON VALLEY'S FREEWAYS are crowded with arcane little messages on great, huge billboards (example: "Faster! Chronologic 3.0"). But even in all the clutter, Informix' guerrilla campaign on rival Oracle sets a new standard for techno-trivia. Informix recently erected a sign (right), with the words "Oracle" and "Late" superimposed on a broken sword.

Only bona fide nerds can hope to get the triple entendre in the billboard, which costs \$10,000 monthly. The sign chides Oracle's four-year

delay in introducing a management product called Oracle8. It also plays on fondness of Oracle Chief Executive Lawrence Ellison for samurai symbolism and typically hypes an alternative formix technology the pany calls "datablade."

Maybe it's time for the warrior to get a new blade.



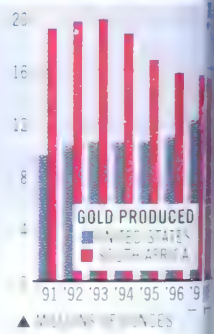
MESSAGE: Taunting rival Oracle

The sign has gotten the skin of executives at Oracle, which is several times bigger as Informix. They say the barbed billboard brings aside Oracle's technical superiority. *Joan O'C. Hall*

THE BIG PICTURE

AMERICA'S MIDAS TOUCH

By 1998, experts predict that the U.S. will produce almost as much gold—about 14 million ounces annually—as South Africa, now the world's biggest producer. American companies are hiking spending to develop mines in such states as Nevada and Utah.



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THE VALUE OF BEING GLASS-CEILING CONSCIOUS

Wow, what a cover! Wow, what a story ("Wise up, guys!" Cover Story, Feb. 17)! Hey, BW—you're getting it!! Let's have more, more, more!

Lya Sorano, Director
Atlanta Women in Business
Atlanta

BUSINESS WEEK is absolutely right. Smart companies must implement change, and everyone benefits when they do.

Four years ago, we launched our Initiative for the Advancement of Women. From our experience, the results are well worth it. We have virtually eliminated the gender gap in turnover, admitted far more women to our partnership, more than doubled the number of women in leadership positions, and now

almost seven years. I found that women who made it to partner were much like their male counterparts—very and incredibly tough. It was as if these women had to become masculine to make it in a male-dominated culture.

Public accounting is a rigorous profession that does not lend itself to a family-friendly culture. After the birth of my first child, I tried for two years to balance my career and family and was more successful than most. I had a lot of support from the partners, but the demands of the profession eventually wore me down. After I learned I was pregnant with my second child, I decided it was time to leave.

I don't believe men are any more ambitious than women. To make it to the top requires tremendous sacrifices. I believe men are more willing than women to do whatever it takes. I'm torn

about this issue, because I know that a lot of valuable women employees are being lost because of work-and-family issues. Should Corporate America make it easier for women to make it to the top? In today's competitive corporate environment, I'm not sure that does any good.

Paige Carmichael



FUTURE VISION

"Until more companies understand the full impact of women in the workforce, they will continue to lose valuable employees to more far-sighted organizations"

have hundreds of women on flexible work arrangements. Our experience has taught us that continuing commitment, accountability, and top-management attention are essential to this organizational change. We recognize that truly breaking the glass ceiling will require a long-term, sustained effort.

J. Michael Cook
Chairman and CEO
Deloitte & Touche LLP
Wilton, Conn.

As a former Coopers & Lybrand manager, I read your article with great interest. At the time I left, about a year ago, I was a successful up-and-coming manager and had been with the firm

I don't believe upper management is championing of female managers. The key to female advancement within corporations. Those in charge of promotions would be wiser to base advancement strictly upon professional qualities and ignore personal qualities such as gender.

I work for a company that has a lot of women in key management positions. I don't consider their rise to be a great accomplishment; rather, I trust that they are based solely on their merits.

Christopher M. O'Brien
Baltimore

Six weeks after I returned to

Business Week

A Division of The McGraw-Hill Companies

MARCH 10, 1997 (ISSN 0007-7135)*** 3517

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Readers Report

from maternity leave, I gave notice that I was leaving. It wasn't because my husband was doing well or because I wanted to work part-time to take care of the baby. No, I am going to work for a smaller company with greater growth potential—one that has more than 50% women in upper management.

Until more companies understand the full impact of women in the workforce, they will continue to lose valuable employees to more farsighted organizations.

Sylvia Pownell
San Diego

DISCREDIT WHERE DISCREDIT IS DUE

Your graphic illustration of federal budget deficits since 1969 ("Life under a balanced budget," News: Analysis & Commentary, Feb. 10) shows the rapid rise of deficits during the Reagan-Bush era. It confirms what I've long believed: The problem has not been "tax-and-spend" liberals but rather "borrow-and-spend" conservatives.

Richard A. Lowenstein
Westport, Conn.

THE COMPANY-CASH NUISANCE: REMEMBER THE SHAREHOLDER?

I looked in vain through the article about U.S. companies piling up cash ("An enormous temptation to waste," News: Analysis & Commentary, Feb. 10) for the one solution that might occur to any unsophisticated shareholder.

Why not just send some of that bothersome cash directly to us as an extra dividend? Too easy, huh?

Barbara Thornton
Ponte Vedra Beach, Fla.

TO FREE ISRAEL'S MARKETS, FREE UP THE BANKING SECTOR

If enthusiasm for free markets could produce growth and wealth, Israel's government under Benjamin Netanyahu ("Remaking Israel," International Business, Feb. 17) would be laughing all the way to the bank. We can hope that many of the economic reforms currently being proposed by his government will indeed be implemented. However, there is one reason for skepticism: the complete absence of any discussion of reform in the bank-

ing sector in Israel or of any serious proposals for privatizing Israeli banks.

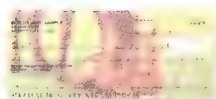
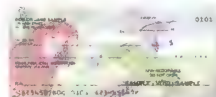
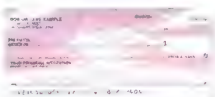
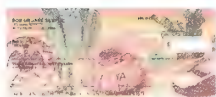
In 1983, the Israeli government—under Likud Prime Minister Menachem Begin, but with Labor Party support—effectively nationalized the four large Israeli banks. And the Israeli government opted to rescue speculators at taxpayer expense. For the next 13 years, Israeli governments railed endlessly about how urgent it was to privatize these banks while doing almost nothing to get the cart rolling.

If Netanyahu is serious about freeing the Israeli market, the only way to show that he is in earnest is to privatize the two large banks that control more than two-thirds of the financial activity in Israel and to privatize the nationalized banks at once.

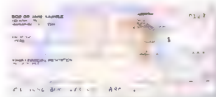
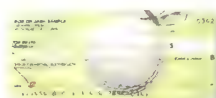
Steven E. ...
Senior Lecturer
Graduate School of Business
University of Haifa, Israel

KOREA'S NUCLEAR WASTE: BURY THE POLITICS

Jonathan Moore's report "A radioactive hot potato" (International



Life is full of complicated decisions.



Feb. 17) highlighted the diver-
perspectives among Asian powers
the safe storage of nuclear waste.
ustrialized nations grow heavily
on nuclear energy, however, the
on of how to safely store the re-
waste should transcend political
nces. It demands international
ation, not confrontation.
h Korea's recent opposition to

North Korea's decision to store low-
grade radioactive waste from the Tai-
wan Power Company is understandable,
but the violent nature of their protests
is misleading. The main accusation lev-
eled by South Korea is that the North
is not capable of handling nuclear waste.
But the fact is the two Koreas and the
United States decided that low-grade
waste produced when North Korea's nu-
clear power plant begins operating will
be stored in the North. Assurances of
safety have come from the Internation-
al Atomic Energy Agency.

South Korea should concentrate its
effort on helping its northern counter-
part. It is vital that these countries set
aside their differences and work toward
regional cooperation, instead of waging
diplomatic war against Taiwan.

Liu Liching
New York

The nuclear nonproliferation treaty
encourages regional cooperation in un-
dertaking the disposal of low-grade ra-
dioactive waste. The contract between
Taipower and North Korea makes it
unmistakably clear that all operations
will be conducted in accordance with
established international regulations.

This straightforward transaction should
not be complicated by bringing in po-
litical issues. We ask for international
cooperation rather than confrontation in
this matter.

Pai Yun-feng
Director

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KOREA'S PLACE IN THE SUN

A Modern History

By Bruce Cumings

Norton • 527pp • \$35

SHATTERING OUR NOTIONS OF KOREA

South Korea's sprint from poverty to prosperity was not an "economic miracle." North Korea is not a rogue state like Iran but a politically stable, neo-Confucian kingdom. Barring war, reunification will happen only after a prolonged period of regional freedom from external meddling.

These are some of the startling conclusions in Bruce Cumings' richly detailed *Korea's Place in the Sun: A Modern History*. A Northwestern University professor and one of America's leading Korea scholars, Cumings shakes up established views of a country whose 20th century experience has been deeply influenced by the U.S. yet remains poorly understood by most Americans.

Indeed, modern Korean history has been little explored. Embarrassment, shame, and psychic scars have kept many Korean and Japanese historians away from the period after 1910, when Japan began its brutal colonization. The South Korean and Japanese governments have kept many documents classified. And Pyongyang has "concocted whole tapestries of events that exist only in the hagiography of Kim Il Sung."

Thus, Cumings' book, which relies on many recent materials, including key documents from the U.S. government, is an important contribution. His aim, in part, is to correct U.S. ignorance, which, he says, helped cause the Korean War and nearly led to another in the early 1990s over the North's nuclear program.

The author shows, for instance, how the American military blundered badly in 1945 after it helped to liberate Korea from the Japanese. Despite President Franklin D. Roosevelt's desire for a joint administration of the country with the Soviet Union, the American military rejected unification, "abjuring diplomacy and simply drawing a line in the dirt." They set up a national police force

and established political domination below the 38th parallel. Moreover, U.S. planners resisted reform of colonial legacies and gave political support to the tiny and abusive Korean aristocracy that the public saw as having collaborated with the Japanese.

Moscow was less heavy-handed. It kept a low profile and backed Kim Il Sung, a hero of the anti-Japanese resistance. By the end of 1946, the North had undertaken radical reforms of land, labor, and women's rights. Soviet troops were gone by the end of 1948. All of this helped Kim Il Sung consolidate political power and prepare for the war that began on June 25, 1950.

The question of who started the war "is the wrong question," Cumings notes in one of many provocative sections, because the Korean War was a civil war and this "is not a civil war question." As with the issue of who fired the first shot in the American Civil War, the answer is only interesting to those immediately affected, he argues. A class conflict that consumed millions of lives, the Korean War solved nothing, Cumings says, and its tensions remain today.

South Korea's remarkable rise from poverty to an economy with per capita income of over \$10,000—a development predicted by no one—has been called an economic miracle. Yet, Cumings argues, the very notion of a "miracle" denotes a failure to understand the South's development model. Korea, after all, had "no capitalists, no Protestants, no merchants, no money, no market, no resources, no get-up-and-go, let alone [any] discernible history of commerce, foreign trade, or industrial development."

Instead of chalking it all up to mira-

cles, Cumings notes South Korea's comparative advantages. These include well-educated workforce suited to industry, a highly competent group of scholar-bureaucrats, and massive infusions of capital from the U.S. and Corporate Japan. Syngman Rhee, South's first president, installed by the U.S., was a master at milking American treasury. In the 1950s, American aid accounted for the entire South Korean government budget.

The South's model of development reached its zenith under the 1960 regime of Park Chung Hee. Bureaucrats fostered *chaebol*, or conglomerates, by giving them scarce funds below-market rates. They targeted industries such as steel, petrochemicals, and cars, and provided a level of protection that nearly guaranteed success.

North Korea is likewise little understood, Cumings says, particularly by ill-informed U.S. media, whom he criticizes for nearly starting a second

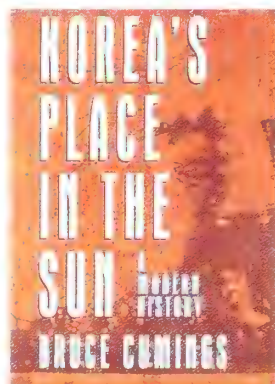
Korean war. Cumings shows how reporters repeatedly asserted, contrary to government statements, that the North intended to build atomic weapons, which fanned fears that Kim Il Sung would use them. "North Korea became a Rorschach inkblot even to the most Orientalist, anticommunist, racist, and outlaw imagination," all in one neat package.

At times, Cumings' sympathy for the Korean

perspective blinds him to Korea's faults. His look at the South's economy, for instance, fails to deal with the structural problems that have begun to stunt growth. Nor does he offer much way of criticism of the North's centrally planned economy. Moreover, while the book is aimed at a general audience, excessive detail may put off many. Cumings writes with the fluency of a writer who sings when Cumings speaks from personal experience, but he lapses into academese. Despite its faults, *Korea's Place in the Sun* is essential reading for anyone interested in an important, dangerous, and volatile country whose emergence from its war impasse is only a matter of time.

BY STEVEN V.

Brull covers Korea from Brull's WEEK's Tokyo bureau.



HAVE AMERICANS MISUNDERSTOOD KOREAN POLITICS AND THE SOUTH'S "ECONOMIC MIRACLE"?

By J. CRAIG ROBERTS

WHY BIG GOVERNMENT SHOULD STOP PICKING ON BIG OIL



SQUEEZED
The U.S. has
not served
well by oilmen
and doesn't
know it. So
expect silence
from Uncle Sam
once again
as a quick
revenue fix

The U.S. government, egged on by critics of Big Oil, is again trying to squeeze more tax revenues out of the oil companies. On Jan. 24, the government published new regulations in the Federal Register that will force the companies to pay an extra \$100 million annually in production royalties. Bureaucrats have decided to change the rules governing royalty payments to the government for oil produced on federally owned land.

Historically, royalties have been based on the wellhead price—the price of oil as it comes out of the ground. The government wants to base the royalty on the price of oil on the New York Mercantile Exchange. This price is usually higher than the wellhead price because it includes transportation costs. Moreover, the government wants to make this retroactive and to stick the companies for more than \$1 billion in additional royalties for oil drilled in past years.

The royalty payment has long been based on the wellhead price and would seem to be an implicit contract not subject to unilateral alteration that favors one party. Moreover, bureaucrats should not be acquiring the power of the purse through regulations. But don't expect any public outcry. The public's attitude toward oil can be summed up in three words: suspicion, scrutiny, and mistrust. The fortunes oil has produced have made it a mark for populist ire, and the high ratio of value to price has made it easy for government to tax.

WATER BARONS? The public's antipathy toward the oil companies is hard to justify when one considers how well the industry has done by the consumer. Consider, for example, the price of a gallon of gasoline, which requires complex technology and massive capital investment to produce. If the state and federal excise taxes that apply to gasoline were removed, a gallon of regular would cost about 80¢, less than a gallon of drinking water in the local grocery store and one-third the price of a gallon of milk.

Excises are not the only taxes reflected in the price of gasoline. Oil companies pay taxes on their assets and their earnings. Americans for Tax Reform, a Washington-based nonprofit organization, calculates that 54% of the price of gasoline is accounted for by taxes. If it were not for taxes, we would be paying about 55¢ or 60¢ for a gallon of gaso-

line. The low cost is extraordinary considering the costs of locating, recovering, and transporting oil, refining it into gasoline, transporting it again, and retailing it to the customer. No other product used by so many comes even close in providing high value for such a low price.

The men who built the oil industry and those who run it today never had an easy time of it. Because of the high stakes, oil has been no industry for the weak of heart or stomach. No less a figure than John D. Rockefeller contended that "all the fortune that I have made has not served to compensate me for the anxiety." Recurrent supply uncertainties and price fluctuations have provided an excuse for political attacks and regulation of oil, and unfounded expectations of gasoline shortages have resulted in mandated fuel economy standards.

THE COMING CRUNCH. In the 20th century, recurrent predictions that the world is running out of oil have time and again been proven false by the ingenuity and dedication of oil entrepreneurs. The growth in Western living standards owes much to the balance that has been kept between oil supply and demand. Demand factors could cause this balance to be lost in the 21st century. Socialism and communism curtailed the world demand for oil by killing economic activity everywhere but in North America, Europe, and Japan. This unnatural prolongation of poverty and backwardness has ended with the collapse of Soviet communism and the abandonment of socialism in Latin America and Asia. The productivity of labor and capital in these vast areas is likely to rise, and the growth in living standards will mean a sharp increase in the demand for oil.

Unless new reserves are discovered and brought into production, a rise in the real price of oil will take a toll on living standards in the older, hydrocarbon-based industrialized economies. Political abuse and public hostility are not conducive to the strength and morale of an industry that more than any other is the basis of our economic life. If we compare the government's proclivity to waste money with the oil industry's ability to deliver low-cost hydrocarbons, it seems obvious that the public would be much better served by leaving the \$100 million a year in the hands of the oil industry and not with government bureaucrats.

Roberts is John M. Olin of the Institute for Political Studies in Washington, D.C., and a Fellow at The Independent Institute in Oakland, Calif.

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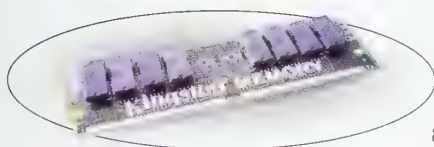
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studies indicate that upgrading RAM improves overall system performance by up to 63%.+ You'll feel your PC shifting into overdrive. Open as many applications as you want and run them simultaneously. Handle monster files and graphics. Cruise the Internet and download video and images with reckless abandon. Think of it this way: You will never find a cheaper way to experience such a quantum leap in computing power.

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BY STEPHEN H. WILDSTROM

COMPAQ'S \$1,000 BARGAIN

Its new Presario 2100—not the cheapest on the market—redefines the entry-level PC

People will buy millions of personal computers this year, but in the U.S., more than two-thirds of those machines will go into homes that already have a computer. Only if computers get drastically cheaper and simpler will market penetration grow much beyond the current 40% of households.

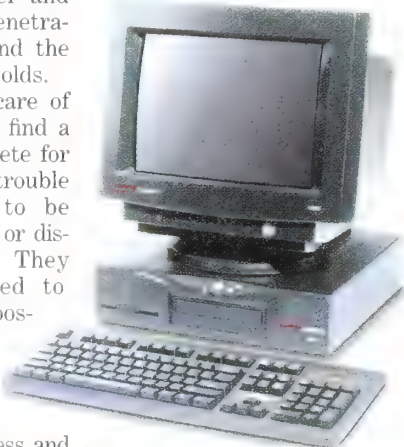
Cheaper is taking care of itself. It's not hard to find a Pentium system complete for less than \$1,000. The trouble is that these tend to be stripped-down systems or discontinued models. They haven't been designed to make life as easy as possible for neophytes.

Now, Compaq Computer, which has been concentrating its efforts on business and high-end consumer systems, is offering a product designed from the case up for first-time, low-budget buyers. The Presario 2100 will retail for just under \$1,000 when it hits the stores in March. The matching V400 monitor will add about \$300.

SEALED SHUT. Keeping the price that low requires compromises, but Compaq chose carefully and in ways that were designed to make the 2100 easier to use. For example, the computer case is sealed, simplifying the design and eliminating the need for expansion slots and bays. Market research had told Compaq that most buyers never open the case. So the

company built in everything it felt budget shoppers would want. Preloaded software is basic—Windows 95 and the all-purpose Microsoft Works, among others. The result: Plug in the 2100, and it's ready to go.

I just wish that Compaq had left some room for growth by including a Universal Serial Bus connector with its serial printer and



game-controller ports. USB devices, which should hit the market later on this year, will make it simple to add accessories such as cameras and scanners to computers simply by plugging them into a standard connector.

The processor is another major design departure. Instead of the ubiquitous Intel Pentium, the Presario uses a 133-megahertz Cyrix Media GX chip, more or less equivalent to a 133-Mhz Pentium. The 2100

is slower than most new computers, but it is more than adequate for most people. And the chip saves a lot of money in manufacturing.

While the 2100 poses no threat to a new 200-Mhz MMX Pentium, I found it snappy enough for multimedia kids' programs and for such demanding applications as Microsoft Office 97. Nice additional touches include a built-in 33.6-kbps modem, 24 megabytes of memory, and a sleep button that shuts down the computer and eliminates the need to reboot when you go back to work.

SHARP FOCUS. Compaq also departed from convention by building speakers into the case rather than attaching them to the monitor. The sound, which you control on the case, is surprisingly good for a bargain system. The design eliminates the need to hook up a set of audio cables to external speakers.

The matching black V400 monitor isn't a bad deal at \$300. Compaq calls it a 14-in. monitor, although with a 13.2-in. viewing area (measured diagonally), it's only a bit smaller than most 15-in. units. And unlike some

other low-cost displays, it's sharp and free of distortion.

You may find a good-quality monitor for less, or you may want something bigger: The design lets you choose.

The Presario 2100 isn't the cheapest model on the market. The Packard Bell C115, for example, sells for just \$999 with a monitor. But Compaq

has done more than build a cheap computer. The company has redesigned the entry-level PC for both low cost and unprecedented simplicity, a move that can only benefit consumers.

The Compaq Presario 2100

133-MHZ CYRIX MEDIA GX PROCESSOR

24 MB RAM

2-GIGABYTE HARD DRIVE

8X CD ROM

33.6-KBPS MODEM

SOUND WITH INTEGRATED SPEAKERS

BULLETIN BOARD

OFFICE ADD-ONS

ART AID

Microsoft Office users who want to punch up documents, slides, or spreadsheets with charts or other graphics can now try ActiveOffice from Software Publishing (408-537-3000). ActiveOffice, a \$50 add-on that works with both Office 95 and 97, is easy to use. It can pull numbers



from an Excel spreadsheet and create a colorful chart in a Word document or a PowerPoint slide. A trial version is available for downloading at www.spc.com.

ORGANIZERS

STILL MORE SOPHISTICATED

Way back before anyone thought of computer screens as "desktops," a program called Sidekick became the first desktop accessory for DOS. The latest edition from Starfish Software (408-561-5800), Sidekick 97 for Windows 95 and NT, still keeps track of addresses, phone numbers, and appointments. But it has grown much more sophisticated while remaining easy to use. The \$50 program lets you share contacts and calendars over the Internet with a company network. Users of U.S. Robotics' Palm Pilot, especially like TrueSync, an add-on that provides one-to-one information transfers between the handheld PDA and computers running either Windows 95 or NT.

WHEN LOOKING FOR OIL
DOWN HERE, IT HELPS TO HAVE TECHNOLOGY
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ut your hands over your eyes. Now look for
il. That's what it's like looking for oil located
elow salt layers as thick as 5,000 feet in the
ulf of Mexico. But recently, we found a way to
ee through these layers. We combined inno-
ative thinking with advanced 3-D seismic tech-

nology to make the Gulf's first commercially
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A world in which old truths are enriched with new ones.
The greater the resources, the greater the possibilities.

BY GENE KORETZ

A GOLDEN AGE OF STEADY GROWTH?

It's a beguiling—and risky— notion

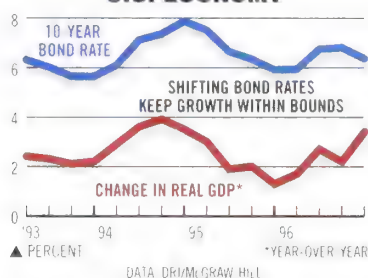
Is the U.S. business cycle defunct? Has the economy, in the words of Paul A. McCulley of UBS Securities Inc., "entered a golden age in which growth modulates endlessly between soft landings and soft takeoffs?"

Judging by the stock market this year, many investors believe in a brave new world of continued growth, low unemployment, and moderate inflation. And their strongest argument is the expansion itself, which is entering its seventh year with nary a twitch in the inflation indicators despite a low jobless rate.

Surprisingly, the Federal Reserve is not the major factor behind this development, observes John H. Makin of the American Enterprise Institute. Rather, it is the inflation-wary bond market, which has responded to growth surges by pushing up interest rates—and to slackening growth by lowering them.

Because long-term rates affect such

A SELF-REGULATING U.S. ECONOMY



key sectors as housing and autos, these shifts have acted as an automatic stabilizer. As DRI/McGraw-Hill notes, much of the variation in economic activity over the past four years can be traced to their influence—with each rise and fall in rates causing an almost symmetrical slowdown or acceleration in growth after a year's time (chart).

The self-regulating pattern of bond rates is one reason the Fed hasn't felt the need to touch the monetary tiller in the past year, says Makin. Another is the rising dollar, which provides added insurance against inflationary pressures. Indeed, it is the idealized view of a robust but inflation-free U.S. economy that has added to the dollar's appeal in

recent months, just as it has fueled the latest surge in stock prices.

The problem, says Makin, is that belief in the arrival of a golden age may contain the seeds of its own destruction. McCulley of UBS Securities, for one, sees signs that it is causing bond markets to become complacent about inflation risks. And Makin argues that it leaves increasingly bullish stock market investors psychologically unprepared for economic shocks that lie ahead.

"The delicate task now facing the Fed," he says, "is to remind investors that the golden-age scenario cannot last forever, without causing them to panic."

PERILS OF THE GRAVEYARD SHIFT

Poor health—and low productivity

Recently, this column noted that evening and night work is far less prevalent in the U.S. today than it was two decades ago. Also, a higher proportion of those who work nights tend to be low-wage workers (BW—Jan. 20).

Now, a report from the Conference Board indicates such workers are more likely to have poor health than other employees. Among the problems that afflict them are fatigue, sleep disorders, depression, obesity, and coronary disease. Nurses who work rotating shifts for six or more years, for example, have a 50% to 70% increased risk of heart attacks. Night workers are also more prone to job-related accidents and have higher absentee and turnover rates.

For employers, the upshot is reduced productivity that, according to one estimate, costs U.S. business some \$70 billion a year. Night workers perform best, the board reports, when they are offered employee assistance and counseling services and when managers and employees receive training on the demands of night work.

BRAINY YOUNG FUND MANAGERS

Their mutual funds yield more

Shopping for a mutual fund? If your first instinct is to simply pick a "hot fund" with a strong showing in recent years, think twice. You might be better off choosing funds based on their manager's age and academic pedigree.

In a study of some 900 growth and

growth-and-income funds from 1994, Judith Chevalier of the University of Chicago and Glenn D. Ellis of the Massachusetts Institute of Technology found that the returns posted by managers with degrees from universities whose entering students have high scores—such as the Ivy League colleges—beat those of competitors at middling schools by more than a percentage point. Younger managers and MBA-holders also outperformed older and non-MBA rivals.

What's behind these differences? Researchers found that "high SAT scorers and those with MBAs tend to invest in high-risk, high-return stocks—a strategy that has paid off handsomely during the current bull market." Younger managers who do poorly tend to be booted out faster than established managers—a quirk that has the effect of boosting their average performance. Also likely that top MBA students are sought out by top-tier fund firms where they benefit from generous search support and low expense ratios.

With Deane

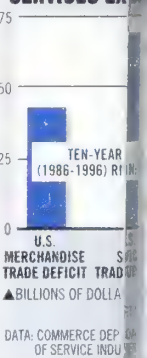
THE TRADE GAP'S SILVER LINING

Services exports just keep rising

The bad news is that America's merchandise trade deficit hit a record \$187.6 billion in 1996. The good news is that the trade surplus in services continued its steady rise, from just \$1.1 billion a decade ago to \$73.4 billion in 1996. As a result, the total trade deficit last year came in at \$114.2 billion—up sharply in recent years, but still below the \$152.9 billion peak recorded in 1987.

The Coalition of Service Industries, a trade group, notes that America's estimated \$20 billion services trade surplus with Japan offset a big chunk of its \$48 billion merchandise trade deficit with that nation. In contrast, America's services surplus with China last year amounted to only \$2 billion of its \$40 billion Chinese goods trade deficit, suggesting "a huge potential for services exports."

A LEG UP FOR SERVICES EXPORTS



JAMES C. COOPER & KATHLEEN MADIGAN

THE GOSPEL ACCORDING TO GREENSPAN

Chairman lays out the Fed's 1997 "favorable" forecast

U.S. ECONOMY

It must have been a very pleased Alan Greenspan who appeared before the Senate Banking Committee on Feb. 26 to talk about monetary policy. After all, the Federal Reserve chairman projected that the economy's mix of solid growth and low inflation would continue in 1997. But the Fed chief also took the opportunity to air his concerns about the stock market and the era of job insecurity is ending. In his semiannual Humphrey-Hawkins testimony before the Senate, Greenspan laid out the Fed's forecast for 1997 (table). Real gross domestic product is expected to grow between 2% and 2.25% over the four quarters of 1997, down from the 3.4% gain in 1996. The consumer price index would rise between 2.5% and 3%, after increased food and energy prices pushed inflation up to 3.3% in 1996.

THE FED'S VIEW OF THE ECONOMY

PERCENT CHANGE

'96 ACTUAL '97 FORECAST

3.4% 2.0-2.25%

3.3% 2.75-3.0%

5.3% 5.25-5.5%

UNEMPLOYMENT RATE IS
4-QUARTER AVERAGE

FEDERAL RESERVE, BUSINESS WEEK

price indexes started to rise. Instead he said, "We cannot rule out a situation in which a preemptive policy tightening may become appropriate before any significant higher inflation becomes evident."

Despite the Fed's forecast, the slow-growth, low-inflation combination seems to have carried through into the first quarter. Real GDP growth has slowed from 4.7% in the fourth quarter. However, strong household fundamentals suggest that any surprises in the outlooks for consumer spending or housing are on the upside in 1997. And those surprises could unhinge the falling-inflation scenario.

CHAIRMAN ACKNOWLEDGED

inflation concerns on his own. Greenspan reiterated the idea that the rise in wages was mainly the consequence of work-insecurity. That is, workers were more interested in getting their jobs than in getting a pay raise. But, he said, "At some point, the trade-off of subdued wage

growth for job security has to come to an end." And he pointed to some evidence that the end was near, including the low unemployment rate and the increase in workers who quit a job to find a new one.

His other big worry was the possible overvaluation of the stock market (page 35). Greenspan repeated his question of last December which asked, "How do we know when irrational exuberance has unduly escalated asset values?" He went on to warn that earnings disappointments could bring down stock prices. Just as in 1996, the markets did not appreciate Greenspan's jawboning. Both the stock and bond markets plunged during the testimony, and closed down for the day.

THE CENTRAL BANK'S

outlook expects smaller gains in consumer demand roughly in line with moderate growth in disposable income. But even Greenspan admitted that the behavior of consumers was always uncertain. After all, why should shoppers scale back now when the latest data show that consumers are extremely upbeat about the current state of the economy as well as on job prospects and their financial futures?

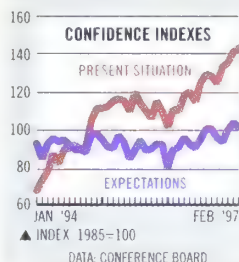
The Conference Board's index of consumer confidence stood at 118.4 in February, barely down from the revised 118.7 reading of January, a 7½-year high. The present-situation component of the index jumped from 141.2 in January to 143.4 in February, a 27-year high (chart). Consumers' expectations for the next six months fell only slightly, to 101.7 from 103.8.

So far in the first quarter, consumers continue to spend. The weekly surveys of retailers show that store sales in the first three weeks of February were up at least 2% above their average of January, when according to government data, total retail sales rose 0.6%.

In addition, the rise in the present-situation index indicates a healthy increase in February payrolls, to be reported on Mar. 7. And as Greenspan noted, consumers are feeling much more confident about their ability to find work. More than 32% think jobs are "easy to get," says the Conference Board. That's the highest percentage in eight years.

Besides the obvious fear that renewed job security

CONSUMERS THINK THE ECONOMY LOOKS GREAT



Business Outlook

generates higher wages, which boost labor costs, Greenspan also said that pay gains are a danger to the inflation outlook because faster income growth may touch off a round of demand-pull pressure on prices. That's a worry now that the economy seems to be using all its available capital and labor. As 1997 progresses, increased spending could exceed the output capacity of producers, causing shortages and production bottlenecks. Greenspan warned that such escalating pressure on resources "could destabilize the economy."

One safety valve for this demand-output imbalance is overseas production. Greenspan noted that the dollar's rise has made imports even cheaper. In fact, import prices fell 0.3% in January, 0.4% when oil is excluded. Over the past year, the prices of nonpetroleum imports have fallen 1.9%. That drop has offset the increases in prices of domestically made goods. But Greenspan doubted that the dollar would provide such a big inflation offset in 1997.

ANOTHER AREA where the Fed expects slower growth is homebuilding. And housing starts began 1997 poorly: They edged up 2% in January, to an annual rate of just 1.35 million. That followed an 11% plunge in December when bad weather shut down building sites in the West and Midwest. Western starts in January recovered, but Midwest construction remained weak.

However, the fundamentals that supported housing in

1996 show few signs of teetering in 1997. Relatively mortgage rates, steady gains in incomes and jobs, consumers' sense of economic well-being suggest that housing could hold its own in 1997, or at worst subside only a bit from GDP growth.

Perhaps that's why builders are optimistic about the outlook. The National Association of Home Builders' housing activity index bumped up to 54% in February, the best reading since October. The biggest gain was in sales expectations for single-family homes. That index jumped from 63% in January to 68% in February, the highest level since June (chart).

One reason for the optimism is that home buying remains affordable. Fixed 30-year mortgage rates are firmly below 8%. And as long as the bond market holds steady, mortgage rates will not rise.

The performance of the bond market, of course, will depend on monetary policy. Up on Capitol Hill, Greenspan said nothing to suggest an imminent rate hike. But he also concluded his remarks by noting that a central banker's job "is to stay on lookout for trouble." That vigilance means that the policy door will stay open throughout 1997.



SPAIN

EURO TARGETS MAY BE WITHIN REACH

Spain is making swift progress toward its entry into a single-currency Europe. After last year's sluggishness, economic growth is picking up and inflation is at a 27-year low. The government seems to have met its 1996 deficit target of 4.4% of gross domestic product, and the outlook suggests it will come close to the 3% mark for 1997 required by the Maastricht Treaty.

The Bank of Spain recently projected that fourth-quarter GDP rose 2.5% from a year ago, up from about 2% earlier in 1996. The faster clip means that 1996 growth will come close to the government's 2.3% goal. The latest data suggest that the quick-er pace will continue, led by con-

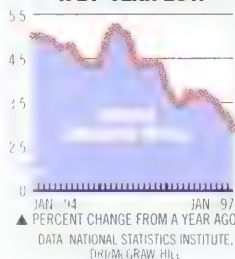
sumer spending and exports. Consumer confidence surged in December and January, and household spending last quarter rose strongly. Manufacturing is also improving. Industrial production rebounded in December, fueled by rising orders, especially from abroad, and manageable inventory levels. If sustained, as expected, the pickup should allow the government to meet its 3% growth target for 1997.

The outlook for consumer inflation, which fell to 2.9% in January, is also bright (chart). Goods prices are under control, although service inflation is more stubborn. Still, slower wage growth, along with the govern-

ment's plan to broaden its policy of cuts in administered prices to include prescription medicines and telephone rates, will offset the upward pressures.

With inflation under control, Bank of Spain will continue to cut interest rates in an effort to counter the drag from fiscal tightening. It has cut the benchmark policy rate from 9% in early 1996 to the current record-low 6%, and another reduction is imminent. Recent weakness in the peseta, reflecting the dollar's strength and Spain's Euro uncertainty, prevented the central bank from acting after the January inflation news. The bank will proceed cautiously, though, because the government must meet its targets for both growth and inflation to assure that it reaches—and can maintain—its deficit goal.

INFLATION HITS A 27-YEAR LOW



DUCK LOGIC.

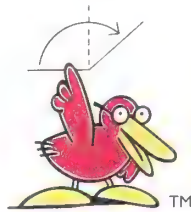
Ducks think differently than you or me. They would never forget a birthday. They have, to my knowledge, never scored a negative political ad. They avoid talk shows like the plague. They dance in the rain and endure great pains to not walk through the puddles. They observe the world with detached amusement. They waddle in the face of adversity.

There was never a face that showed some waddling, some confusion, some flying into, it's confusion. Also, its bubbles burst, its emotions re-conceived, its rules redefined. That's Duck Logic.

Catera is a personal luxury car fraught with Duck Logic. The result is the stuff of blueprints: a scrambling of preconceptions that turns out to be a whole new comelet. It's luxury that booms. Refinement that giggles. The way that zigs.

Ducks were designed in God's wind tunnel. They eschew ornaments that would make their dynamics any less aero. The resulting

Duck Logic tells us that wind noise isn't the result of wind. It's a result of those that resist the wind; outside rearview mirrors, windshield wipers, hoods. So engineers tested and retested Catera at up to 125 mph over and over again. Partially to optimize hood, wiper and mirror designs against wind



noise. And partially, because it's fun to test things at 125 mph.

Duck Logic tells us that luxury is in more places than in the eye of the beholder; it's in the...other places too. So Catera's driver's seat is designed to be particularly comfortable because its "hip points" have been raised for the optimum driving position. And the available power memory seat adjusts for three different drivers. Partially because that helps each

driver have optimal control. And partially, because it's fun.

No discussion of Duck Logic would be complete without music. It's a little-known fact that ducks fly in the midst of commercial radio waves, allowing them perfect, distortion-free sound, a boon to their migratory travels. (They plan flight lanes carefully, to circumvent the broadcast signals of shock jocks and talk radio.) Duck Logic knows the virtue of clear sound on long trips. It led to the design of an optional sound system with computer programs to create a three-dimensional picture of how sound would behave in a Catera. Partially because great sound would be fun. And partially, because it would be a lot of fun. (Duck Logic is no prisoner to logic.)

Duck Logic sneers at the mundane, scoffs at the expected, waddles and flies in the face of convention and then, way over its head. Duck Logic begets Catera: luxury that's fun, the Caddy that zigs. The ducks would be proud.



CATERA
THE CADDY THAT ZIGS.



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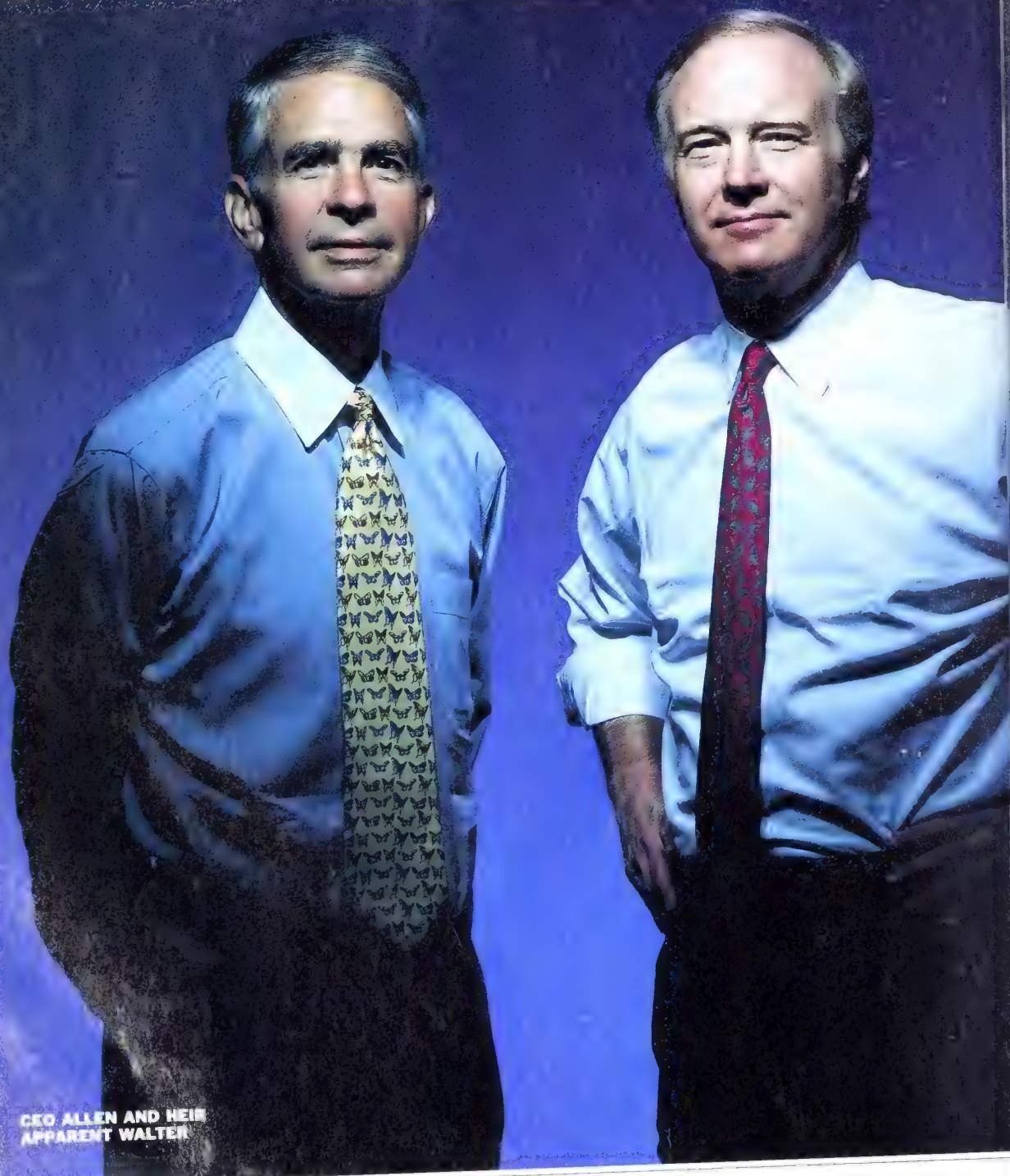
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TELECOMMUNICATIONS

CAN WALTER FI



CEO ALLEN AND HEIR
APPARENT WALTER

T&T?

So far, he's counting on nitty-gritty management changes to anchor a turnaround. Will that satisfy the Street?

In his first 100 days as president and chief operating officer of AT&T, John R. Walter has heard an earful. Customers have complained that the giant is arrogant. Employees grouched that they're bogged down by bureaucracy and politics. And insiders have bemoaned strategic bluntness that made AT&T a bystander in the stock market in U.S. history. Now, the CEO-in-waiting is about to face his harshest critics. On Mar. 3 and 4, Walter will put on a two-day show for Wall Street analysts—detailing, for the first time publicly his plan for

choice a 1," lamented Chicago Corp. analyst Kenneth M. Leon at the time. Four months later, AT&T has inched up to just over 40, well off its 52-week high of 45½. Few analysts predict an uptick anytime soon, given AT&T's problems in long distance and the costly effort to move into local calling.

As he prepared for the analyst meeting during the last week of February, Walter downplayed its significance. "I'm not in awe and I'm not in fear of it," he told BUSINESS WEEK in an exclusive interview. The self-assured 50-year-old got where he is by perfecting his sales pitch. He's known to prepare for meetings—with customers, investors, or em-

nologies Inc. and NCR Corp.)—the company's core business had started to slip. AT&T's share of the U.S. long-distance market, from which it derives almost all of its revenue, has dropped from 56% to 54% in the past year. And margins are falling, a casualty of the industry's move to flat-rate pricing. Allen, in his first interview since a Feb. 6 heart operation, acknowledges that his heir apparent now has "perhaps the toughest job in American business today."

Is Walter up to it? Does he have the management and leadership skills to unlock the talents buried inside one of the most entrenched corporate cultures in America? Can he make AT&T as aggres-

Five Ways Walter Is Rewiring AT&T

STRATEGY Focus on delivering communications solutions"—such AT&T services as long distance, wireless, satellite TV, and credit cards—to customers, big and small. He will push into local calling through resale deals with the Baby Bells and expand the company's digital wireless network. He will also build up AT&T's outsourcing business and grow outside the U.S.

STRUCTURE Expect a major reorganization to improve coordination of AT&T units in local markets, eliminate overlaps, and clarify roles. May end the business-unit structure put in place in the late 1980s.

CORPORATE CULTURE Seeks greater accountability throughout the company and promises to push down more profit-and-loss responsibility. Urges managers to be more proactive; advises employees to spend every AT&T dollar as if it's their own.

MANAGEMENT TEAM Assembling a mix of insiders and outsiders. Walter's first key pick, 22-year AT&T veteran Gail McGovern as consumer chief, is the consummate team player. Now he's searching outside for a top financial officer.

COST-CUTTING More costs will be driven out of the business, farming out some operations and cutting back on consultants. Will complete Allen's plan to eliminate 17,000 positions by early 1999.

what ails AT&T. Walter says he will unleash any dramatic new initiative. Rather, he'll use this debut to give some 50 skeptical analysts that fresh insight into the phone giant's troubles and a plan for managing a turnaround.

THE SALESMAN. It will be a tough sell. These are the people who last year let out a collective groan when Robert E. Allen announced that Walter, the little-known CEO of a Texas-based printer R. R. Donnelley & Co., would be his successor. On Feb. 3, the day Walter was named president, AT&T's stock plunged 4.5%, to a low on a scale of 1 to 10, I'd rate this

employees—as if he's going into battle.

Convincing investors—or anybody—that he can solve AT&T's problems will take more than a slick presentation. Walter has assumed day-to-day operations at a company that for a decade repeatedly failed to execute grandiose schemes to pioneer all manner of cutting-edge digital technologies. "It has not delivered on its promise or its resources," gripes Ben A. Hock, senior vice-president at John Hancock Investment Fund, an AT&T shareholder.

By the time Allen decided two years ago to focus on telecom services only—by spinning off AT&T's phone-equipment and computer subsidiaries (Lucent Tech-

nologies as its nimble rivals? Does his background—an entire career spent at Donnelley, which is less than one-fifth AT&T's size—prepare him for the task ahead? Walter, the upbeat salesman, says he is turned on by the challenge: "Did I take this job for the ego? No. Did I do it for the money? No. I did it because it is the opportunity of a lifetime."

Walter's best bet with the analysts, as well as with customers, is to show that he can do at AT&T what Louis V. Gerstner Jr. did at IBM. Gerstner, who had no background in the computer industry, at the start avoided making fundamental changes in the company's strategies. Declaring that there was no need for a

new "vision," he focused on the organizational and management issues.

At AT&T, Walter seems to be taking the same tack. He is working on a reorganization to make the company more responsive. He has ordered his executives to go back to basics and focus first on customer needs rather than internal politicking. Walter is putting in place plans that emphasize teamwork and punish infighting. Above all, he's leaning

between the business units and break down the fiefdoms. In Walter's view, the lack of coordination between these powerful units, responsible for such operations as consumer calling, corporate services, wireless, and data networks, have slowed down decision-making. "Ninety-five percent of the people who come into this office want me to make the decision," says Walter. "I ask them, what do they think we should do, and I tell them

A leaner, more responsive organization will go a long way toward reversing AT&T's declining fortunes. Indeed, since Allen announced the triple divestiture in 1995, analysts have rarely quibbled with the basic strategy—only with its sorry execution.

So, Walter's top priority is to make the existing plan work. To shore up the long-distance business, he and McGovern want to stop one of AT&T's favorite

marketing habits: issuing checks to customers who switch to AT&T. That scheme, which cost some \$1 billion last year, did little to boost the company's market share. Walter wants more innovative solutions to beef up volumes. McGovern says she welcomes Walter's new perspective: "It's good to have fresh eyes around."

Going forward, the strategy still revolves around "bundling"—trading on the AT&T brand name to offer customers a selection of services: local, long distance, and wireless calling, as well as Internet access, entertainment, plus AT&T credit cards. For bundling to work, Walter notes, AT&T doesn't have to own all the pieces of the bundle—it can resell products and services supplied by others.

That's key to keeping the costs of entering new markets down. "We can't do everything because we can't execute it all, and we can't finance it," explains Walter. Reselling local calling capacity leased from the Bells and GTE Corp. is a prime example of the strategy. It's a tactic that was blessed when the 1996 Telecommunications Act made reselling possible. For business customers, AT&T already has agreements with eight alternative access providers, which link companies directly to AT&T's network.

Resale may give AT&T relative cheap entrée into local service, but the costs of competing in deregulated markets are still staggering. Rolling out wireless networks and launching long-distance calling could dilute earnings by as much as 40¢ a share this year, or \$640 million, estimates Morgan Stanley & Co. analyst Stephanie G. Comfort. She figures AT&T will earn \$5.8 billion on revenues of \$54.4 billion in 1997, a modest improvement over 1996 earnings of \$5.6 billion on revenues of \$52.2 billion. The recent quarter's net, the company warned, will actually come in below last year's \$1.5 billion as a result of increased capital investments.

Walter will try to rein in spending

KICKING HABITS

Consumer chief McGovern wants to ax one long-distance ploy—issuing checks to those who switch to AT&T. That cost some \$2 billion last year



on managers to deliver on the plans they make. Walter admits it's basic stuff—but the stuff that AT&T's inbred management has had trouble with in the past. "I'm not a Bell head," he says. "Maybe that's an advantage."

For now, Walter, who admits he's still boning up on the telecom industry, relies heavily on a cadre of experienced executives. When he meets the analysts, he'll be accompanied by a dozen top executives from across the \$52.1 billion company—experts on everything from consumer long distance to Internet access. Two of the key players are Walter appointments: Gail J. McGovern, 44, in charge of retaking lost ground in the consumer long-distance market, and 40-year-old AT&T veteran Jeffrey Weitzen, who moved into McGovern's old job as head of business services, the unit that sells telecom to corporations. Walter is searching outside for a top financial officer to replace Richard W. Miller, who recently resigned.

Walter will not make any major announcements on Mar. 3, but he's expected to give analysts some details of a reorganization on the drawing boards. The re-vamping is intended to eliminate overlaps

to do it. My God, just go do something."

That goes for middle management, not just top execs. To that end, Walter plans to distribute stock options further down so that more employees will think of themselves as owners. Options have long been reserved for the 585 executives in two top layers of management. Walter will seek shareholder approval to add two more layers—some 9,000 managers. **"LOW-HANGING FRUIT."** Walter also is expected to make substantial cuts to reduce overhead. Despite years of staff reductions by Allen, the new president says there's still lots of "low-hanging fruit." A prime target: outside consultants who, by some estimates, are billing AT&T as much as \$1 billion a year. "We want to learn how to fish," he says. "We don't want to have somebody fish for us."

The new president also is likely to cut some staffers. At the end of 1995, AT&T said it would slash 17,000 jobs within three years. But it ended 1996 with 131,400 people on its payroll—2,000 more than it had a year earlier, an astounding figure in a company with a 10% annual attrition rate. There are still 2,000 employees in human resources and 450 in public relations, for example.



"I'm not a Bell head. That may be an advantage," says Walter, who aims to break up old fiefdoms

can't afford to go too far. Re- is not a permanent strategy for lling. Indeed, one of the first de- Walter faced when he signed on urther to still support an experi- wireless system to make the lo- cation. That system, which won't ty to launch for a year or more, es to connect consumers to the etwork for a fraction of the cost ired system, which can run as \$2,000 per home (page 30).

ite his support for the wireless . Walter is taking his time about cal-market moves, say sources o the company. "Walter has things down to reassess the lan," says an industry executive orks closely with AT&T. Mean- ival MCI Communications Corp. is g local networks in 31 cities, and y Bells are readying their entry g distance. "The window of op- ty for AT&T to be so tentative is " warns UBS Securities Inc. ana- nda B. Meltzer.

BOY. Walter is cramming as he can. Over Christmas he stud- ve-inch-thick technical guide to T long-distance net- the largest phone in the world. He even unpacked the ard boxes still in his office, a floor Allen's at AT&T's ng Basking Ridge headquarters. Until e and two daughters e from the Chicago is spring, he's liv- nearby hotel.

er has made his e known throughout T empire. He has ed across the U.S., g with some 7,000 ees, visiting hun- 'customers, and try- reassure dozens of onal investors. Some ke that the blond, d Walter is the new Boy," a reference riking 23-karat-gold e of Mercury that guard outside com- adquarters.

mpression that the er was eclipsing was reinforced by recent 19-day ab- or heart surgery.

Allen, who returned to work on Feb. 24—a week early, against his doctor's wishes—vehemently disputes that: "Bob Allen is still the CEO," he says. "What AT&T needs more than anything else is leadership on operations and execution. John has taken on those tasks with a lot of enthusiasm and energy."

And more. Although Allen won't give over the CEO title to Walter until next January and the chairman's job the following May, when he retires, he has brought his new president in on decisions that are customarily the sole province of a chairman. Walter and Allen, for example, together picked two new directors, including the first outsider with a technology background, who will join the board this spring. They decline to disclose the name.

Publicly, it's the Bob and John show—an image AT&T carefully promotes. Both will be at the analysts show, and for this article, the company refused to allow Walter to be photographed without Allen by his side. In interviews, both men insist they are working as a team, with, as Allen says, "no space between our shoulders." Of his boss, Walter says: "I have

great respect for the man. I can't do anything but benefit from his knowledge and experience, and I'd be a fool not to." Confides a Walter associate: "It's a little awkward and difficult, but they are man- aging through it."

From the outset, Walter knew his as- cent over so many seasoned insiders would cause tension. Before joining AT&T, he sought advice from other outsider CEOs—IBM's Gerstner, Eastman Kodak's George M.C. Fisher, Sears' Arthur C. Martinez, and USAir's Stephen M. Wolf. Their advice: Watch your back. "People are going to tell you up front that they want to be part of your team, but don't believe that."

"CARPETLAND." Walter admits he hasn't always been diplomatic. He poked fun at "carpetland," what one employee calls AT&T's "deathly quiet and energy- less" executive suite. He has bluntly told employees the company lacks a clear strategy, its management systems are a disaster, and its plans for local service too grandiose. One manager who got the lecture was so taken with Walter that he raved to colleagues in a widely circulated E-mail message. "I

was extremely impressed with Walter, his energy, his sense of humor, and his candor," wrote AT&T man- ager Allan Watson.

Not everyone took kindly to the critiques from a stranger. "You've got to earn the right to say those things," says one middle manager. "He hasn't. He's a little too much of a sales- man." On the other hand, AT&T salespeople love the new guy. Two weeks after his arrival, Walter walked in unannounced on a room of 100 sales managers and discussed the issues facing the company in a town meeting format. They re- awarded Walter with a standing ovation. "I've never seen that before," says McGovern. "They were really mesmerized."

Of course, salesmanship has been Walter's trade- mark. At Donnelley, which he joined as a trainee after graduation from Miami University in Oxford, Ohio, he earned the nick- name Jaws. By the time

The 5,000 Fingers of AT&T

AT&T has been sticking its fingers in every segment of the tele- com business, so it can offer customers a bundle of services.

1996 REVENUES
MILLIONS

LONG DISTANCE AT&T's share of the market has dwindled to 54% from 58% in 1994—because of increased competi- tion. Look for market share to shrink even more when the Baby Bells enter the market. **\$46,000**

LOCAL CALLING Despite filings a year ago to offer local calling in every state, AT&T does so only in California and Connecti- cut. Initially, AT&T will resell local calling but needs to strike resale pacts with local phone companies. **\$0**

WIRELESS AT&T is the largest U.S. cellular operator. Its 1996 cell-phone revenues grew by more than 20%. But AT&T's build-out of a nationwide digital network will squeeze mar- gins, as will new competitors entering each market. **\$3,500**

TELEVISION AT&T markets direct-broadcast satellite-TV service under its brand—the result of its 2.5% stake in Hughes Electronics' DirecTV. Here, too, new rivals such as an MCI- NewsCorp venture, are expected in the next two years. **\$9**

INTERNET Despite a rocky startup a year ago, WorldNet, AT&T's Internet access service, is now the largest Web provider, with 600,000 customers. **N/A**

DATA MORGAN STANLEY

he was 25, his commissions exceeded the salary of Donnelley's chairman.

Walter shot up the management ladder, becoming president in 1987 and chief executive and chairman two years later. During his stint as CEO, the company's sales nearly doubled, to \$6.6 billion, and it secured its lead as the world's largest commercial printer.

As CEO, Walter tried to shake up the stodgy Donnelley culture and move the company into electronic publishing—

with mixed results. Over the course of his tenure as CEO, profit margins were halved, to 3.5%. His purchase of Stream International, a \$1.5 billion producer of software diskettes and computer manuals, for instance, didn't pan out. In 1996, the company took a \$560 million restructuring charge to close plants, causing a net loss of \$158 million. It also cost Walter his bonus.

Now, salesman Walter may be facing the biggest pitch of his career. If he can't

dispel doubts at the Mar. 3 meeting about his ability to shake up the AT&T organization, the cloud over the company will only darken. "We'll be looking for an energetic, clear presentation by a leader that really gets people jazzed about the business and the opportunities," says Comfort. It's showtime, Mr. Walter.

By John A. Byrne and Catherine Arnst in Basking Ridge, N.J., and Richard A. Melcher in Chicago and other bureau reports

HOW AT&T LUCKED INTO A WIRELESS SECRET WEAPON

John R. Walter is determined to show the skeptics who think AT&T is a techno-has-been. On Feb. 25, the phone giant's president unveiled a new fixed wireless technology that not only allows customers to use the same phone in the home and on the road but also promises to deliver high-speed data services for consumers. Most important, it could give AT&T a jump on long-distance rivals in forging local links to customers.

If the system lives up to the hype, AT&T can thank the gods—for it lucked into this technology. It wasn't the failed Bell Laboratories that cooked up the scheme but a handful of engineers working in secrecy in Redmond, Wash.

THE ANGEL LOOP. It started in early 1993. Nicholas Kauser, chief technologist for what was then McCaw Cellular Communications Inc., wanted to design a fixed wireless system that would deliver better quality and faster data speeds than copper lines. He asked his boss, Craig O. McCaw, for a few million dollars and started Project Dino, named for the Flintstones' pet dinosaur.

All was going well—until August, 1993, when AT&T made a \$12 billion bid to buy McCaw. "We didn't want them to know our plans, in case the deal fell through," says Steven W. Hooper, now president of AT&T Wireless Services. Not until after the deal

was closed, in September, 1994, did McCaw executives reveal Dino's existence. A month later, the top brass in Basking Ridge, N.J., dispatched a team of Bell Labs scientists to fly out to Washington and vet Kauser's work. "They went through the whole scheme looking for ways to kill it, and couldn't find any," boasts Hooper.

LOOK MA, NO WIRES AT&T plans to sign up local callers for a digital fixed wireless system that will send and receive voice and data at 128 kilobits per second



That convinced AT&T execs that they were on to something big—and it made them redouble efforts to keep it secret. First step: Kauser changed the code name to Project Angel. "I just got back from a vacation in the Greek Isles, and I was feeling pretty angelic," he says. In December, AT&T's board gave the go-ahead for AT&T Wireless to bid in the Federal Communications Commission's auctions of wireless spectrum. Eventually, it spent \$2 billion for licenses covering 93% of the U.S. population.

Kauser and team continued developing the technology in a windowless, signless building in Redmond, two miles from the wireless division's Kirkland (Wash.) headquarters. The 200 or so project staffers

weren't listed in the AT&T directory weren't reachable on the AT&T voice mail system, and weren't introduced to anyone in Kirkland. Only a dozen people throughout AT&T got the top secret clearance needed to be in the Angel loop.

During the same period, AT&T Wireless Vice-Chairman Wayne M.

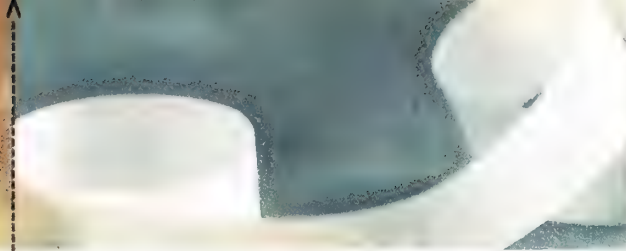
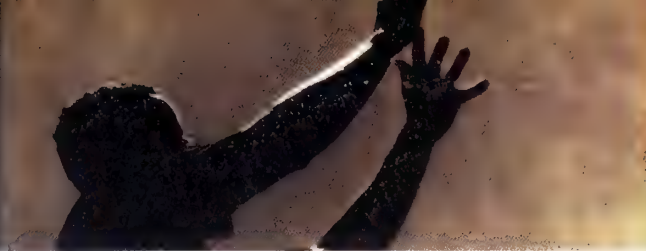
Perry was in Washington, bidding in the FCC auctions. AT&T said publicly that it wanted to fill out holes in its national cellular network, but most of the capacity was being assembled for fixed wireless. Perry says he was "completely paranoid" that the Bells

would figure out the truth: "They might have bought up licenses to block us."

Walter's arrival presented another hurdle. A telecom neophyte, he had to be convinced that Angel made sense. "It took him a while to absorb the strategic significance," Perry says. "Somebody described it as drinking water from a firehose."

Once Walter got it, he was a convert. "Residential communication may never be the same again," he crowed when he unveiled the scheme. The setup, which will be tested in Chicago shortly, is still nearly two years from a commercial rollout. But for the moment, it looks like this angel got its wings.

By Catherine Arnst in New York and Amy Barrett in Washington



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WASHINGTON

WHY THE GOP LOVES TO HATE BOB RUBIN

The Treasury Secretary has emerged as the most powerful player in the Clinton Cabinet

When President Clinton journeyed to Capitol Hill on Feb. 11 for a budget summit, his Republican hosts counted the chairs with special care. "We made sure there were only the exact number at the table" for Clinton, Vice-President Al Gore, and congressional leaders, smirks a GOP aide. The target of the snub: Treasury Secretary Robert E. Rubin, who was forced to sit with lowly staffers. The missing-chair stunt was a symbol of frustration with Rubin, whom Republicans view increasingly as the chief hurdle to a host of GOP priorities—from the balanced-budget amendment to a broad capital-gains tax cut.

No matter. Wherever he sits, Rubin, 58, has a power aura that comes from being first among equals in the Cabinet and top dog on the President's economic team. The millionaire investment banker, an influential player from the start of the Administration, has more clout than ever in the second term. A key reason: Powerful advisers such as Chief of Staff Leon E. Panetta and political aide George R. Stephanopoulos are gone and officials with close ties to Rubin are now in key policy posts. "There's no doubt that Bob reigns supreme," observes one senior Administration official.

Case in point: Rubin's role in blunting the GOP drive for a balanced-budget amendment. The measure, which once looked like it might pass both houses, now faces an uphill struggle, largely because the Treasury chief stiffened Clinton's resistance. Last November the President gave Senate Majority Leader Trent Lott (R-Miss.) the impression that he could live with the amendment

if it included more spending flexibility during recessions. But Rubin scuttled that, arguing that the amendment could force a cutoff of Social Security checks. Furious, Lott blasted Rubin's views as the "hysterical" hectoring of a "Chicken Little."

That flap could be a mere skirmish compared with the protracted battle looming over an agreement to balance the budget by 2002. The key to sealing the deal may be a significant capital-gains tax cut: Republicans are intent on enacting an across-the-board reduction in the current 28% top rate. But despite his former role as co-chair of Goldman, Sachs & Co., Rubin blasts that idea as a needless giveaway that won't boost growth (page 34). "Are you getting an economic effect that's worth the cost?" Rubin asks. "My answer is no."

SIDESTEPPING RUBIN. Republicans have picked up some Democratic support for a broader capital-gains tax cut. And with Clinton's history of wobbling all over on the subject, GOP leaders are convinced that they could sell him—if they can sidestep Rubin. "If we can get the staff and Secretary out of the way," Lott said on Feb. 12, "maybe we [will] have something to agree about."

But Republicans would be wrong to figure that by going around Rubin they could easily find a sympathetic ear in the Administration. "It would be a big mistake to assume Bob's a sole actor,"

says a former top White House adviser. Rubin has key allies in the new Chief of Staff, Erskine B. Bowles, and Budget Director Franklin D. Raines. Though former investment bankers themselves, they share Rubin's dislike for a costly capital-gains cut.

Rubin may eventually agree to a rate cut that gives richer rewards to investors who hold assets longer. But he's not yet tipping his hand. "Bob is used to ruthless negotiating on Wall Street," says a R adviser. "It's not time to reveal his bottom line." For now, he's pushing Clinton's modest proposal to provide capital-gains relief for home sellers.

Republicans can attest to Rubineffectiveness. The Secretary first got into trouble with conservative GOP leaders when he engineered an end run around Congress to bail out Mexico during the 1995 peso crisis. He angered Republicans again during last winter's budget standoff by using creative accounting to prevent a default on Treasury securities. That defanged the GOP strategy

RUBIN INC.— THE BALANCE SHEET

A moderate on economic policy and a liberal on social issues, Rubin is a strong centrist force in the Administration. He "reigns supreme"—with allies like Bowles and Budget Director Raines.

ASSETS

THE STATURE THING Rubin is first among equals in the Cabinet. He dazzled Clinton in 1993 by correctly predicting that a deficit cut would produce a bonanza in the market for lower interest rates. He's been golden ever since.

BULLISH ON BUSINESS Wall Streeter Rubin has pushed moderate economic policies, pushing free trade, and convincing Clinton to reappoint Alan Greenspan as Fed chairman and muting antibusiness rhetoric by Administration officials.

DOLLAR DIPLOMAT His strong-dollar campaign has been so successful that he now is having trouble capping the dollar's rise. He helped push through the successful Mexico bailout of 1995.



NEMESIS

Republicans are chafing under his opposition to a balanced-budget amendment and a capital-gains tax cut

forcing Clinton to buy their budget cuts and set some GOP freshmen muttering about impeaching Rubin.

It's not just Rubin's tactics that conservatives object to. They hate his politics, too. Rubin wants to spend more to fight urban poverty and opposes plans to overhaul the tax code. Rubin, says House Majority Leader Richard K. Arney (R-Tex.), "is more liberal than I'd expect a Treasury Secretary to be."

While Rubin's maneuvering may cause heartburn among GOP leaders, financial markets applaud the moderation he brings to the Administration's economic policies. "Wall Street finds Rubin reassuring," says a lobbyist for a major brokerage house. "He's the only adult in the Administration."

That view is echoed by Hill Democrats, even though some think his approach too free-market. One ex-

ample: In March, Rubin is expected to issue a report urging the end of Depression-era curbs on banks. That would permit, for example, Merrill Lynch & Co. and Citicorp Inc. to merge. Even liberals who decry such deregulation admire Rubin's clout. Says one Democratic Senate staffer: "Just like papal infallibility, there's Rubin infallibility in the Administration."

Well, not really. He has had his share of setbacks. In 1993, as White House economic counselor, he couldn't derail Hillary Rodham Clinton's health-care plan. And in crafting Clinton's reelection agenda, political advisers overrode Rubin's objections to a 2002 balanced-budget deadline, capping welfare benefits, and proposing tax breaks for tuition and home sales.

WINNING STREAK. But on most major issues, Rubin has prevailed. In 1993, he squelched a big stimulus plan in favor of deficit reduction. He has stifled Fed-bashing by Clinton aides, shepherded the dollar's rise from historic lows, and pushed to normalize trade relations with China.

Now, he's likely to extend his winning streak—in part because Rubin people are everywhere. Former aide de camp Sylvia M. Mathews is now White House deputy chief of staff. Another protégé, Eugene Sperling, heads the National Economic Council. Deputy Treasury Secretary Lawrence H. Summers has de facto control of all international economic issues. And Rubin plucked Janet L. Yellen from the Federal Reserve to chair the Council of Economic Advisers.

Rubin's team is gearing up for fights on several major issues. He wants to stop efforts to invest Social Security surpluses in the stock market. And administration sources say Rubin will seek to defuse the explosive issue of limiting cost-of-living increases. He rejects the

claim that the Consumer Price Index overstates inflation by 1.1 percentage points, but may settle for a 0.5-point COLA trim for Social Security and taxes. To head off GOP attacks on the Internal Revenue Service, Rubin is looking for a new commissioner with the managerial savvy to restore order at the chaotic agency.

The IRS mess could give Republicans a way to get at Rubin. Angry GOP leaders hope to tar

LIABILITIES

THE VISION THING Rather than attempt bold reform of the tax code and entitlement programs, Rubin favors small-scale tinkering and rarely proposes major innovative policies.

DEFICIT DOVE Rubin, a Keynesian, pays lip service to the goal of a balanced budget by 2002 but privately has scorned the idea. Republicans smell a rat in his budget plan, which defers politically difficult cuts for three years.

SOFT SPOKESMAN Introverted and camera-shy, Rubin has not always been a forceful public advocate for Administration economic policies. Nor has he cut a big swath among the Group of Seven finance ministers.

the Treasury chief with the agency's chronic disarray. And they plan to embarrass Rubin by pointing out that he and his top bank regulator attended one of the infamous fund-raising coffees at the heart of Donorgate.

For now, Rubin is not worrying about the partisan shots. He's too busy try-

ing to get Clinton and Congress to cut a budget deal this fall. "In the final analysis," he predicts serenely, "an agreement will be reached." A bipartisan glow may ensue, and Republicans might shed some of their resentment of the Treasury Secretary. And who knows? If dealmaker

Rubin sweetens the pot with a broad capital-gains cut, Republicans might even learn to like him—a bit.

By Owen Ullmann and Mike M. Namee, with Richard S. Dunham and Amy Borrus, in Washington

A TALK WITH ROBERT RUBIN

Treasury Secretary Robert E. Rubin is ready to talk. How do we know? He has folded his slender frame into a chair and has kicked off his penny loafers—a Rubin trademark. In a wide-ranging interview with *BUSINESS WEEK* Washington Bureau Chief Lee Walczak and other editors on Feb. 24, the Treasury chief sounded off on the balanced budget, taxes, and the economy...

Q: Republicans have problems with your new budget. They say the entitlement reforms are too timid, there's too much new spending, and the big cuts in the plan's final two years are unrealistic. Your response?

A: They're wrong.

Q: Does that hold for analysts at your old firm, Goldman Sachs, who have reached the same conclusion in a new report?

“A capital-gains cut would have little effect on savings, and little effect on growth...our priority is to balance the budget”

A: I haven't read the report, but if that's a summary of it, yeah. It's very much like '93. We put in place an economic plan, and people said it wasn't going to work, it would produce a recession. We said it would work. And it did. We've taken exactly the same approach to the fiscal '98 budget.

Q: Is it credible to project \$200 billion in domestic spending cuts in the plan's last two years?

A: You have roughly \$350 billion in savings and \$100 billion in tax cuts. About 60% to 70% of the savings

are in the last two years. That's an achievable objective if you're willing to make tough decisions.

Q: You've said that there's nothing magical about balancing the budget by a fixed date...

A: ...I don't think I said that. I actually think there's a lot to be said for a balanced budget.

Q: Do you say that for economic reasons, or because of market expectations?

A: They become the same thing. Balance has taken on enormous symbolic importance. Remember, for this strategy to work, you have to have markets respect what you're doing on the fiscal side and provide you with lower interest rates.

Q: Why do you oppose GOP calls for a broad capital-gains tax cut?

A: Most economists feel a capital-

gains cut would have little effect on savings and therefore little effect on growth.

Q: Critics consider you an obstacle to tax reform. Why oppose a fundamental overhaul?

A: Right now, our priority is to balance the budget. Structural tax reform is enormously complicated and needs to be thought through. Most people who advocate it haven't gone through that process.

Q: Was Fed Chairman Alan Greenspan right when he worried



publicly [in December] about an overheated stock market?

A: I think the general outlook is favorable for continued growth and low inflation. As for the stock market, that is a question of how you think your valuation relates to the outlook for growth. I interpret Greenspan's comment as a suggestion that people take into account the full range of possible outcomes, and properly weigh rewards and risks.

Q: Have structural changes—the end of the cold war, globalization, and the shift to an information economy—lessened the risk of recessions?

A: We don't see any signs of serious slowdown. But I don't think anybody's repealed the business cycle. There has been a set of changes, from globalization to technology to businesses learning to use technology better. Also, the American private sector has gotten itself into much better competitive shape.

Q: A disturbing aspect of the Donorgate scandal is the coziness between big donors and Clinton policymakers. Does this concern you?

A: I don't accept your point about "coziness." In my meetings with people at fund-raisers, the only thing I do is get input. The key is to make decisions based on the merits.

For an expanded transcript of this Q&A, visit Business Week Online at www.businessweek.com or America Online, keyword: BW.

MYBE THE DOW LY LOOKS DANGEROUS

Yardsticks indicate that the bull still has room to run

the stratospheric heights of the S. stock market reflect a new —or simply new levels of irra-
—ubérance? That was the question
into the financial markets by Fed-
—erve Chairman Alan Greenspan
—testimony before the Senate Bank-
—committee on Feb. 26. The markets
—eted his comments as debunking
—v that the economy had entered a
—able euphoric high, fueled by low
—n, strong corporate profits, and
—oductivity. The
—ndustrials re-
—d by plunging
—n as 122 points
—closing down 55
—to 6,983, and
—year Treasury
—yield jumped
—36% to 6.78%.

ALL CLEAR?

"We have
—ahead of us a
—very long
—period of
—additional
—economic and
—profit growth"

—reet strategists argue that many
—ried-and-true yardsticks of value
—longer valid. By their new math,
—aren't wildly overvalued or head-
—a huge fall. The market may not
—o its recent torrid pace, but the
—y the trend will still be upward—
—ng the Dow Jones industrial av-
—nd the Standard & Poor's 500-
—dex 10% higher in 1997.

—NG. The case for this "new era"
—s rests on changes in the U.S.
—y that have made companies
—fficient. "Cyclical inflation has
—sarmed by the intensified com-
—that has become a way of life
—porate America," says Prudential
—ies Inc. chief investment strate-
—eg A. Smith. The rise of the in-
—on economy and sharper global
—tion take "a lot of the sting out"
—late stages of a business cycle,
—sing prices and inflation are ex-
—he says. If the economy doesn't
—ks from a sudden rise in food or
—prices, Smith says inflation could
—% this year. And that, he pre-
—uld lead to a 7500 Dow in 1997.
—er bull is Goldman, Sachs & Co.'s
—guru, Abby Joseph Cohen. Low-
—ion expectations, she argues, are
—ng out the business cycle by re-
—g consumer spending and keeping
—inventories lean. Cohen recently
—clients that stocks may stay in a

trading range for a while. But, she says,
—"that doesn't mean we've changed our
—bullish view. The fundamentals are still
—very strong in the U.S. We have ahead
—of us a very long-lasting period of addi-
—tional economic and profit growth."

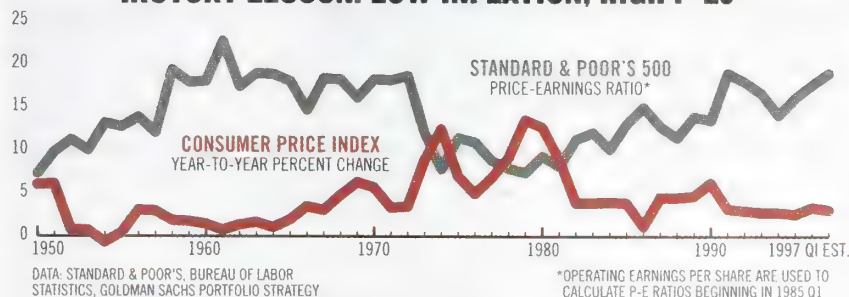
It doesn't necessarily require new
—math to justify current market valua-
—tions. Jeffrey M. Applegate, Lehman
—Brothers Inc.'s chief investment strate-
—gist, looks back to the bull market of the
—early 1960s. From 1961 to 1965, the

Of course, believing that "this time
—it's different" has undone investors in
—the past. But Peter J. Canelo, chief in-
—vestment strategist at Dean Witter
—Reynolds Inc., notes that an unusual
—set of factors are converging: "A good
—economy, inflation nowhere to be seen,
—earnings coming in better than people
—expected, a very strong U.S. dollar
—helping to keep inflation down and bring
—money into our markets." Factor in a
—likely capital-gains tax cut and, he con-
—cludes, the Dow has not reached a level
—that signals a major correction.

Even growling bears can't predict a
—top. "Assuming we're in a new era and
—don't know when it will end, you've
—moved so far past any gauges useful in
—measuring it that we can't predict an
—upside target," says Andrew Engel, se-
—nior research analyst at Leuthold Group
—in Minneapolis. Still, Engel says he can



HISTORY LESSON: LOW INFLATION, HIGH P-Es



"trailing" consumer price index—the CPI
—measured for the previous 12 months—
—averaged 1.3%, and the trailing p-e on
—the S&P 500 stayed above 18, save for a
—short correction in 1962. And from July,
—1962, to January, 1966, the S&P 500 index
—rose 90%. The situation is similar today,
—with the trailing CPI at 3.3% and the S&P
—500 p-e multiple at 19.6. The lesson, says
—Applegate: "The market appears to have
—gotten ahead of itself, but not wildly so."
—He thinks the S&P 500 could end 1997 up
—17% to 20%.

envision a slide of 30% to 40% this year.

If the old rules don't apply any-
—more, can we forget the old saw that
—zit's foolish to fight the Fed? Green-
—span's threat of a possible "pre-
—emptive" rate hike to safeguard against
—inflation is sure to ratchet up interest-
—rate jitters. But even if rates do go up,
—"it's just not true that rising rates ne-
—cessarily kill off a stock market," insists
—Canelo. The question now: Is that wish-
—ful thinking? Or a new era dawning?

By Suzanne Woolley in New York

WORKPLACE

CALLING ALL NERDS

U.S. companies are fighting a fierce bidding war for high-tech talent



John Gerdelman, president of MCI Communications Corp.'s networkMCI Services Div. in Washington, is accustomed to high-tech raids. Every year, he shepherds about 40 computer tenderfeet through his division's six-month training regime at a cost of \$50,000 per pupil. No one bothers the recruits much while they're in MCI classrooms in Colorado Springs and elsewhere, he says. But once the training is done, other companies starved for high-tech talent rush to lure away the newly minted techies with big contracts. Attrition? "If half of them are here two years from now, we'll be very excited," Gerdelman says.

Gerdelman's travails are just one sign that America's computer revolution could soon be sputtering on a near-empty tank of knowhow. As U.S. companies race to revamp their vast computer networks, log on to the Internet, and try to avoid a digital debacle before the year 2000 throws off their computers, they're sopping up talent—and still coming up short. A new study by the Information Technology Association of America (ITAA) estimates that 190,000 info-tech jobs stand vacant in U.S. companies—half in the information industry. And the crunch may get worse as U.S. universities produce historically low numbers of computer scientists.

The result? A bidding war for digital talent that could eat into corporate earnings and stunt growth. One example: Maynard Webb, chief informa-

tion officer at Bay Networks Inc., a Silicon Valley communications company, just lost a five-year programmer making \$80,000 to a consultancy offering two years guaranteed at \$300,000 per year.

FINDER'S FEES. There's scant sign that the bidding will cool off, either. Even as consultants stream in from Ireland and South Africa, and digital job shops in India work extra shifts, demand far outstrips supply. In the ITAA survey, fully four-fifths of the high-tech companies hope to hire more computer experts.

The shortage is more than a costly annoyance. In the ITAA study, two-thirds of the tech companies surveyed cited

the shortage as the greatest barrier to growth for their companies. That pinch was mentioned as a hurdle to growth as often as the state of the economy.

And it's not just hurting technology companies. At times, says Frederick Matteson, senior vice-president for technology at Charles Schwab Corp., "we're unable to respond to business needs as quickly as we'd like because we can't get people on fast enough." In October, Schwab began paying employees a \$3,000 finder's fee for referrals to technology applicants.

How has that great labor-saving device, the computer, managed to spawn a worker shortage? First, the Internet. According to a study commissioned by the National Internet Project, an Arlington (Va.)-based Internet industry group, 760,000 techies are working at Net-related companies—up from virtually none a few years ago. Some are running startups. Many are signing deals with outfits such as Microsoft Corp. and America Online, which are continuously tweaking their online offerings.

At the same time, computer pressure is pushing all kinds of businesses to get more efficient. They're using computer networks to forge direct links to suppliers and customers and stringing together operations into complex systems so that finance managers in Cincinnati, say, can check inventories in Milan or sales in Singapore. Such "enterprise applications" gobbled up \$42.5 billion worldwide in 1996.

THE SKILLS CRUNCH

The number of college students earning a BS in computer science has fallen 43% in the past decade. But demand for programmers is soaring because:

ENTERPRISE-WIDE SYSTEMS

Companies worldwide spent an estimated \$42.5 billion in 1996 to link computers so that managers can monitor inventories and finances in real time.

THE INTERNET

The Net has dramatically hiked demand for techies. An estimated 760,000 people are working for Net-related companies alone. Corporations are scouring the want ads for programmers to run intranets.

THE YEAR 2000

Thousands of business programs—for issuing pay checks, calculating life-insurance premiums, you name it—are not set up to work with dates after 1999. So companies are rushing to reprogram computers to avoid a massive crash. The cost: as high as \$600 billion in the U.S. alone.

pending last year and fueled explosive growth in consulting.

Big Six consulting firms and hundreds of boutiques are doling out six-figure salaries for technicians. The most are programmers who are adept at enterprise programs, such as software by German's SAP or its U.S. rivals, Oracle Corp. and PeopleSoft Inc. "We're growing at 100%," says Karl Newkirk, managing partner at Andersen Consulting, who heads the enterprise applications unit.

Corporations and consulting firms are paying millions on recruiting—and hiring one another. "My team is getting paid like crazy," gripes Bay Networks' Webb. To protect against predations, companies are showering computer executives with stock options and promising continued training—vital in power industries. Last year, pay for info-tech workers rose by 12% according to consultants William Mercer Inc. Average annual pay for software architects, who design computer systems, hit \$85,600.

In this market, even digital dinosaurs are popping out of the tar pits. Experts on mainframe computers, whose prospects have been dimming with the advent of client-server networks, are now in demand. The reason: At the turn of the '90s, thousands of computers that recognize two-digit years will go on to read the year 2000. Companies that aren't ready to ditch the old systems—often the ones that still run critical functions, such as accounting—need scores of mainframe experts to rewrite millions of lines of code in the antiquated COBOL language.

MARKS. The cost of rewriting the "old" systems for 2000 and testing a mind-boggling \$600 billion, says Gartner Group (page 98). Already, some experts are landing hefty sums. "A year ago, you could find experts in D.C.," says MCI'selman. "Now, they're getting paid up."

Only cool zone in this hot market, enough, is at U.S. universities. Graduate degrees earned in computer science dipped 43% from 1986 to 1994. That's partly because of a glut of majors in the mid-1980s and partly to American students' well-documented aversion to math. Also, students that computer-science curricula sufficiently market-oriented. The salaries in the market should persuade students not to worry—but probably not in time to give industry the gift of high-tech workers it needs. *Stephen Baker in Pittsburgh and Barrett in Washington, with Linda Stein in San Francisco*

LABOR

THIS UNION SUIT COULD REALLY SCRATCH

Class actions against Albertson's test a new tactic

In 1992, after 15 years as a checkout clerk, Patricia A. Jones jumped when her employer, Albertson's Inc., offered her a "promotion" to customer-service supervisor. True, the job paid the same, and she still had to check groceries at her Diamond Heights store, near Los Angeles. But Jones would have a chance to gain valuable experience in tasks such as employee training.

It soon became clear, however, that Albertson's expected her to do the extra work after hours—without pay. For the next four years she worked four or five extra hours per week for free. "I asked

the UFCW has gathered worker claims of labor-law violations and forwarded them to private lawyers and government agencies. This led to a record \$16 million fine against Food Lion Inc. in 1993 and to an \$81 million legal settlement in January by Publix Super Markets Inc. At Albertson's, however, the union has hired its own class-action lawyers and is running the suit itself. If the strategy works, the UFCW may retain a staff of lawyers to bring similar suits in the future, says UFCW President Douglas H. Dority. In effect, the union is enforcing federal labor law on its own—rather

than relying on government agencies to do so.

GRIEVANCES. The UFCW claims that off-the-clock work is widespread among Albertson's 85,000 employees, about 40% of whom are union members. The union says it has received more than 4,500 complaints and has substantiated 2,000 so far. An outside polling firm it hired found that a third of Albertson's workers say they have

SOME PROMOTION

Jones's new job brought longer hours for the exact same pay



about it all the time, and they just said I had to work it out," says Jones, who returned to checking last year.

Jones is a union steward in the United Food & Commercial Workers (UFCW), which in recent months launched a spate of class actions against Albertson's after realizing how widespread her problem had become. The lawsuits allege that the Boise-based chain systematically requires employees to work "off-the-clock," without pay. The union's suits face a key hurdle within weeks, when a San Francisco judge is due to rule on whether they can proceed. If they do go forward, as expected, Albertson's ultimately could be liable for some \$200 million in back pay and damages. It also could face work-rule changes that might shave its 6% profit margins, which stand out in an industry of 3% to 5% returns.

The suits are a test of a powerful new weapon for unions. In recent years,

worked without pay at some point.

So far, the union has filed suits in California, Florida, and Washington, and is readying ones in other states as well. Albertson's has tried to get the suits dismissed by arguing that the union must first take any complaints through its own grievance process. However, the Labor Dept. filed an amicus brief in the U.S. District Court in San Francisco saying the suits can proceed. The judge is due to rule on the issue in early March, which would clear the way for the union suits to proceed.

Albertson's executives concede that some managers may prod employees to work without pay, but denies that the abuses are widespread. "We have an excellent record on this," says spokesman Mike Reed. Still, if the union is even half right, Albertson's may not be the industry's highflier much longer.

By Aaron Bernstein in Washington

COMMENTARY

By Paul Magnusson

UNCLE SAM ISN'T PLAYING FAIR WITH THE WTO

It has been a year since Cuban fighter pilots fired on two unarmed Miami-based Cessnas off Cuba's northern coast, killing four on board. But the reverberations from the attack continue.

Now, the repercussions are reaching the World Trade Organization, the Geneva body set up in 1995 to settle trade disputes. The U.S., which was a driving force behind creating the WTO, is jeopardizing the fledgling body by threatening to boycott a WTO panel investigating the Helms-Burton Act, an outgrowth of the Cessna incident.

Signed just weeks after the shoot-down, the law added two new provisions to 30 years of trade sanctions against Cuba. One allows the State Dept. to deny visas to executives of foreign companies that invest in Cuba. The other lets Americans sue in U.S. courts to recover damages from companies that "traffic" in expropriated property—even if they are foreign multinationals.

The defense of this heavy-handed Cuba policy has placed the Clinton Administration in an escalating trade dispute with some of America's closest allies. And while some in the Administration admit that its continuing attempts to isolate Cuba are an embarrassing mess, policymakers can't seem to find a way to extricate themselves.

NO-SHOW? The latest crisis came after the WTO appointed a three-member panel to hear a complaint from the European Union against U.S. policy on Cuba. "We just won't show up," vowed one senior Administration official on Feb. 20.

But a no-show at the hearing would encourage other nations to do the same. Moreover, the U.S.—which has filed 23 trade complaints with the WTO, more than any other country—could lose a potentially valuable crowbar for prying open foreign mar-



WHEN AMERICA NEEDS HELP, WHO DOES IT CALL?

The U.S. has brought 23 complaints before the World Trade Organization involving dozens of countries. Some of the biggest:

JAPAN The U.S. claims that Japan blocks sales of foreign photographic film and paper with laws and regulations aimed at protecting Fuji Photo Film.

EUROPEAN UNION The U.S. objects to a European ban on beef with growth hormones. It also opposes preferential treatment of banana producers in former British and French colonies.

BRAZIL AND INDONESIA The U.S. wants to end Indonesia's limits on imported cars and the conditions that Brazil puts on auto importers.

PHILIPPINES The U.S. wants the WTO to force the Philippines to deliver on an agreement it made in 1996 to provide more import licenses for U.S. pork.

DATA: OFFICE OF U.S. TRADE REPRESENTATIVE

kets. In fact, U.S. trade officials announced their boycott of the WTO panel on the same day that they brought their most significant WTO case yet: charging that Japan is restricting foreign access to its photographic film and paper market. On Feb. 25, the WTO set up five more

panels, four of them in response to U.S. complaints about market barriers in Europe and Latin America.

The Clintonites started down this slippery slope when the President signed the Helms-Burton bill. The U.S. law immediately raised the ire of European nations, which objected to the possibility that their multinationals could face thousands of lawsuits in U.S. courts if they continued to pursue trade with Cuba.

PALTRY PENALTY. Even worse than the law is America's refusal to attend any panel hearing on Helms-Burton. That is shortsighted. The U.S. is giving up a chance to set a better example. And it's overreacting. The WTO cannot rewrite U.S. laws. It can only levy a financial penalty. "Even if we lost the case before the WTO, the compensation we would have to pay to the Europeans would be minimal," argues Julius Katz, a former deputy trade ambassador.

The Administration, which seeking new authority from Congress to expand the North American Free Trade Agreement throughout the hemisphere, believes it has to demonstrate toughness. But ignoring the arbiter of free trade is not the way to show resolve. "This is twisted logic if the goal is to expand hemispheric trade by destroying the best mechanism for preserving global free trade," says Philip J. Brenner, a Cuba expert at American University.

For the past year, the fallout from the "Cuban Cessna crisis" has only gotten worse. It's time for the U.S. to change the Helms-Burton law, negotiate a compromise with the EU, or show up and pay the fine.

Paul Magnusson covers trade and international economics from Washington.

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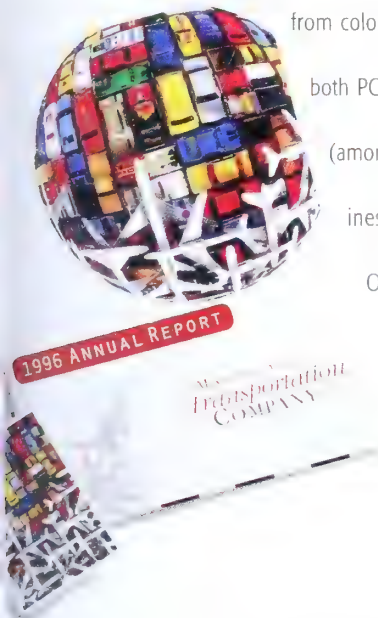
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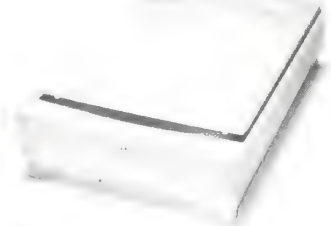


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EDITED BY KELLEY HOLLAND

NEWS CORP. WISHES UPON ECHOSTAR

HERE HE COMES: RUPERT Murdoch is finally moving into the U.S. satellite-TV market. On Feb. 24, News Corp. unveiled a \$1 billion investment in fast-growing but financially strapped EchoStar Communications in exchange for a 50% stake in the Englewood (Colo.) company. The move solves pressing problems for both outfits. Murdoch's American Sky Broadcasting venture is at least three years behind market leaders DirectTV, a unit of Hughes Electronics, and Primestar, a consortium of cable companies led by Tele-Communications. Fast-growing EchoStar, meanwhile, desperately needs

cash after setting off a price war last year. Murdoch plans to launch Sky, a beefed-up state-of-the-art service offering 500 digital channels, including local stations, nationwide, by early 1998, and he vows that it will reach more than 8 million viewers within five years.

WERE CREDIT UNIONS TOO WELCOMING?

THE NATION'S CREDIT UNIONS are getting their day in court. The U.S. Supreme Court agreed on Feb. 24 to hear an appeal by North Carolina's AT&T Family Federal Credit Union on whether it and other credit unions improperly accepted members from unaffiliated companies or occupations. Legal experts say if the Supreme Court agrees with the appellate court that they did, it could force the bust-up of many of the nation's 2,000 largest credit unions, which have been enjoying explosive growth and which continue to operate tax-free. The court will hear arguments this fall, and an opinion could come in 1998.

LAUGHING ALL THE WAY TO CITIBANK

NICE RAISE IF YOU CAN GET it. In 1996, Citicorp Chairman and CEO John Reed topped off \$3.5 million of salary and bonus with \$40.1 million of paper profits from exercising options, the company's new proxy material reveals. That should make him one of the highest-paid corporate executives of 1996. In 1995, by contrast, Reed's salary and bonus totaled \$4.3 million, and he exercised shares with a relatively paltry value of \$3.8 million. The good times could get even better: Reed has additional options he can exercise at any time that are currently worth over \$40 million.

HEADLINER: RAPTOR

DINO-MITE!

Can raptors save Acclaim Entertainment? Awash in inventory of poor-selling games, the Glen Cove (N.Y.) software maker lost \$221 million in fiscal 1996 and \$19 million in its first '97 quarter. But its *Turok: Dinosaur Hunter*, due Mar. 4, is winning raves from game mags, thanks to the vivid graphics of the Nintendo 64 system it runs on.

The good news is that the Nintendo 64 system is selling briskly, just beating sales of Sony Corp.'s PlayStation last Christmas. The downside: N64 games run on cartridges,

not CD-ROMs, raising production costs. And cartridges need more lead time, so Acclaim could be stuck with unwanted inventory again.

That doesn't bother kids, who love offing the dinosaurs in *Turok*. "This is a very involving game," says James Granger, a ninth-grader in Manhattan, as he kills raptors. "Amazing weapons!" he whispers, switching among assault rifles, grenade launchers, and fusion cannon. His deffness is bad news for the raptors. But he's saying what Acclaim wants to hear.

By Neil G.



CLOSING BELL

PIXAR DUST

Pixar felt the magic Feb. 24 when Disney cut a 10-year, five-film deal with the *Toy Story* animator. Investors raised Pixar's stock 49%, to \$21. Under the deal, Pixar will share production costs but get half the profits from film and merchandise—up from the 10% it got for *Toy Story*. That has CEO Steve Jobs feeling like a kid again. When Pixar shares hit \$40 after the 1995 IPO, he was a paper billionaire—briefly. Before the Disney deal, Pixar traded at about \$14. Now his 78% stake is worth \$600 million.



DATA BY COMBUSTION, FINANCIAL MARKETS

AOL: BAD NEWS AND GOOD NEWS

MORE LEGAL HEADACHES FOR America Online. On Feb. 24, shareholders sued in U.S. District Court in Virginia alleging that AOL directors and outside accountants violated securities laws in the way the company did its accounting. The online giant took a \$385 million charge in October for marketing expenses it had capitalized. AOL says it complied with all securities laws. Not all the news for AOL is bad, however: On Feb. 25, the company struck a deal to market Tel-Save Holdings' long-distance service and received a \$100 million up-front payment from Tel-Save.

FROM MOUSE EARS TO SUNTAN OIL

HE RESCUED PART OF THE Magic Kingdom. Can Philippe Bourguignon now recover Par-

adise Lost? The Euro Inn CEO, who took Disney Paris from near-bankruptcy two straight years of losses, joining Club Méditerranée, which lost \$130 million in 1996. Bourguignon has been to boost profits, including closing resorts and selling ships. He also plans to a key part of Club Méditerranée's sun-sand-sex image: The club-goers use for couples while frolicking at the pool will be replaced by playing cards.

ET CETERA...

- UST's CFO and the president of its smokeless tobacco abruptly resigned.
- CPC International is spinning off its corn refiner business.
- 3Com plans to buy Robotics for \$6.6 billion in stock.
- Little Mac, anyone? Donald's will cut price key menu offerings.

THEFT, VANDALISM, AND CHAOS.

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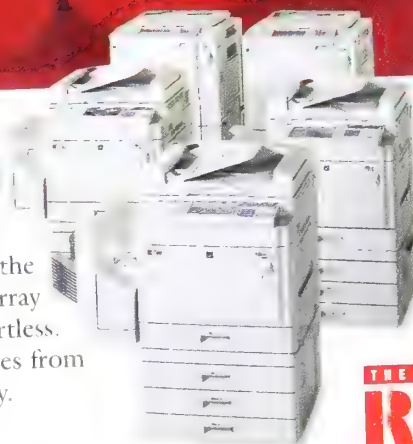
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BY OWEN ULLMANN

THE LATEST TRADE WAR: DEMOCRAT VS. DEMOCRAT

ly, it seems as if all the intraparty bloodletting has been among Republicans. But Democrats are about to get back to their usual bickering as they brace for a congressional battle over trade—with strong overtones for Cam-2000. On one side: Vice-President Al Gore, point man of the Administration's push to expand the North American Free Trade Agreement. On the other: House Minority Leader Dan Rostenkowski (D-Ill.), implacable NAFTA foe.

The issue is congressional renewal of the Administration's authority to negotiate "fast-track" trade accords that let lawmakers tinker. The brawl will set the stage for a showdown between the two longtime rivals for the Presidency. "It may not be the primary of 2000, but it's the first," says one Democratic operative. It's also a fight that exposes the fault lines of the Democratic Party. Gephardt is the champion of liberals who believe free-trade pacts are exporting U.S. jobs to low-wage nations. Gore hopes to be the Bill Clinton's New Democrat who says that expanded trade spurs growth and creates high-wage jobs. "This is a defining issue for the party," says Representative Jim Kolbe (R-Ariz.). T. Matsui (D-Calif.).

The fast-track authority lapsed in 1994. The Administration has only been able to complete negotiations that started before then. As a practical matter, it can't launch talks on new deals such as Chile's inclusion in the pact because Congress might cripple them with amendments. Congress can only approve or reject fast-track deals. **THE QUESTIONED.** The loss of fast-track authority has caused doubts about the U.S. commitment to expanding free trade throughout the Americas. Alarm bells are also going off in Mexico City, which President Clinton will visit in April. (1), about Gephardt's use of the fast-track debate to try to force NAFTA's worker and environmental protections.

"Our credibility is strained to the breaking point," warns David J. Rothkopf, managing director of Kissinger Associates. Tired of waiting, nations in the region such as Brazil and Argentina have already formed smaller trade blocs.

Trade is a divisive issue for the GOP, too, because of its growing wing of economic nationalists. But for now, many Republicans, including House Speaker Newt Gingrich, hint that they're prepared to meet Clinton halfway: The GOP would extend a fast-track mandate that is silent on labor and environmental issues if Clinton limits side deals on those subjects.

The Clintonites are inclined to bite, but Gephardt and the



GEPHARDT AND GORE: "Defining issue"

AFL-CIO insist that NAFTA-expansion accords include commitments on those issues. "This is not negotiable. Trade, labor, and the environment are inextricably intertwined," says Gephardt. If he rallies enough of the 205 House Democrats to his side, GOP ardor for fast-track authority may cool. They want political cover. "This won't pass if only 50 to 60 Democrats come to the altar," warns one GOP Hill staffer. It may be tough to muster many more. Two issues—payoffs by drug lords to a Mexican general and the \$39 billion U.S. trade deficit with NAFTA partners Canada and Mexico—are sure to

rile House protectionists. And fast-track renewal faces tougher going in the Senate, which chafes at curbs on its powers.

The Clintonites will have to start dealing soon. Action can't be pushed into 1998 because lawmakers won't touch such a controversial issue in a midterm election year. "If we don't do this by August, it isn't going to get done," says Representative Jim Kolbe (R-Ariz.), a leading free-trader. That means Gore and Gephardt will be squaring off in coming months as Democrats struggle over the future of trade—and the leadership of their party.

By Amy Borrus

CAPITAL WRAPUP

REPUBLICANS FOR GORE

a fact of political life that Republican voters detest Bill Clinton. True with Vice-President Al Gore, according to a new Republican survey. Fabrizio, Bob Dole's chief pollster in the 1996 campaign, found that a respectable 41% of Republicans view Gore favorably, while just 47% don't. To gain all voters, Gore boasts impressive 22%-to-27% approval ratings. The appeal is that he has seized the moral center. Fabrizio's somber bottom line for the GOP: Unless it finds is-

suces that push Gore to the left, the 2000 election could be an uphill fight for GOP Presidential aspirants.

THE TAX MAN RESPONDETH

► The Internal Revenue Service's troubled toll-free 800 telephone number is working better this year, though many taxpayers are still getting busy signals. This tax season, two-thirds of callers are getting through to ask questions. That's up from less than half in '96, says IRS Taxpayer Advocate Lee Monks. His goal is an 85% response rate.

NEW SCIENCE GURU

► The White House Office of Science & Technology Policy, which is supposed to shape Administration science initiatives, is taking a backseat these days to President Clinton's new deputy chief of staff, John D. Podesta. "He wants to be the science adviser," says one source. A former consultant to high-tech clients, Podesta wants to shift money from basic science to high-tech projects. His fingerprints can be seen on a White House plan to boost education via the Internet.

SCANDALS

THE EX-IM BANK: CAUGHT IN THE SWIRL OF DONORGATE

The agency was already a target of budget-cutters. Now, it's becoming a target of the Justice Dept.

Across Lafayette Park from the White House sits the Export-Import Bank, an obscure agency with only 440 employees and a budget of just \$726 million. That's small beer as federal agencies go, but Ex-Im's involvement with President Bill Clinton's network of Arkansas friends and financiers is making it a target for Justice Dept. prosecutors and congressional investigators probing the nexus of money, influence, and favors in the White House. And if the President nominates Wall Street veteran and Democratic donor James A. Harmon to run the agency, as expected, Ex-Im's troubles could multiply.

FIRE FIGHTING. Even before the Donorgate scandal broke, Ex-Im officials had their hands full putting out fires. The agency's five-year authorization expires in September. It's now defending itself against Capitol Hill budget-cutters, who view Ex-Im as a prime example of corporate welfare, since the bulk of its below-market loans and guarantees are subsidized by taxpayers and go to multinational corporations. It also didn't help that Ex-Im's current chairman, Martin A. Kamarck, authorized bonuses averaging \$5,000 to almost half the bank's employees. Government personnel authorities now say the move was illegal. Kamarck says he was trying to reward Ex-Im's top performers, but erred in tapping a government fund designed to keep highly skilled people who might resign. Kamarck, whose wife, Elaine, is chief of staff to Vice-President Al Gore, is expected to quit once the Senate confirms a replacement.

Ex-Im is also drawing fire for expanding the range of projects it backs. Its cheap loans to state-controlled Russian natural-resource enterprises have raised questions of whether Ex-Im's money is at cross-purposes with Administration policies supporting privatizations and



financing by capital markets. "Ex-Im is in serious trouble," warns Edward Rice, director of the Coalition for Employment through Exports, a business-backed Ex-Im advocacy group.

Harmon's anticipated appointment could complicate Ex-Im's predicament. As senior chairman of Schroder Wertheim & Co., Harmon, 61, now holds a nonexecutive position with the investment bank. A corporate-finance expert, he capped a 22-year career there by engineering the buyout of his own institution by deep-pocketed British merchant bank Schroders PLC in 1994.

These days, Harmon is known more for political finance. He helped former

New York City Mayor David N. Dinkins raise some \$2.5 million in 1993 and came one of Clinton's and the Democratic National Committee's biggest donors in 1996. He and his wife have received \$204,000 since 1992 to Clinton and Democratic candidates, but the bulk of that came in three chunks last year in the form of soft money to the DNC. Soft money is an unregulated donation to a political party. Harmon's major donations all came six weeks before or after Clinton's White House coffees.

Harmon also hired Tony Coelho, former California Congressman, to do fundraising among savings-and-loan executives on behalf of Capitol Hill Democrats.

hackles in the late 1980s. And on has become a prodigious fund- on Wall Street, helping to amass \$2 million for the DNC at a June, event at the Waldorf-Astoria ho- armon says he'd be "honored to be" to a government office, and de- further comment. But Steven , Schroder Wertheim CEO, says on "will be offered a position based credentials as a Wall Street exec- and not because he gave money." er Ex-Im chairmen have also been financiers. But at this sensitive ay agency supporters and detrac-

A Clinton appointee to Ex-Im pushed for a loan to a Thai-controlled company about the time its rep made a large donation to the Democrats

to the tune of \$894 million in 1996. It claims that some \$14 billion worth of ex-ports and 300,000 American jobs de- pended on its financing last year. But congressional and Justice Dept. investi- gators aren't focusing on such success stories. Instead, they're looking into Ex-

request, which is still pending, would en- able Sun Tech to open 100 Blockbuster video stores in Bangkok. The Thai appli- cation caused an internal debate over its propriety. Ex-Im has never approved fi- nancing for franchise rights, as retail stores outside the U.S. don't directly create American jobs.

Ex-Im documents indicate that Haley began advocating approval around the time Kanchanalak made large donations to the DNC. One \$85,000 contribution came on June 18, 1996, the day DNC fund- raiser John Huang arranged for Kan- chanalak to be invited to a White House coffee. Huang called Haley the same day as well, and twice more in August. Kan- chanalak also had unusual access at Ex- Im, meeting with or phoning Haley three times after the donation.

The DNC has returned \$250,000 of Kan- chanalak's donations because of questions about their foreign origin. Through an Ex-Im spokesman, Haley says she had no knowledge of the donations when she agreed to meet with Kanchanalak. But Congressional sources say a Justice Dept. task force on Feb. 24 subpoenaed records from Kanchanalak's U.S.-Thai Business Council, along with Ex-Im documents. House and Senate panels have done the same. The Thai council could not be reached for comment. Kanchanalak de- clined comment.

RED FLAG? Suspicions of White House meddling were raised last fall when the Administration appointed Gloria Cabe, a former aide to Clinton when he was Arkansas Governor, as a special as- sistant to Kamarck. Concerns over Haley and Harmon were heightened on Feb. 25 with the release of documents showing Clinton's hands-on role in raising cam- paign funds by authorizing the use of the White House for overnight stays in the Lincoln bedroom and kaffeeklatsches with the President.

Ex-Im officials hope to resist their critics by noting that the bank showed a \$1.2 billion profit last year, its first since the early 1980s. But congressional and Administration budget experts say the profit figure is based on a reduction, from \$5.7 billion to \$2.4 billion, in reserves to cover future losses. Trouble is, Ex-Im's portfolio is becoming riskier because of lending in Russia and other emerging markets. Such accounting gimmicks are making the agency, already under duress, more vulnerable to GOP partisans.

By Paula Dwyer in Washington

IMPORT BANK
UNITED STATES

ADMINISTRATION
OF CONSTRUCTION
OF VETERANS APPEALS
ADMINISTRATIVE OFFICE
UNITED STATES COURTS

WOES BREWING AT EX-IM

► The expected naming of Harmon as the bank's head is drawing charges of White House political meddling.



JAMES A. HARMON

► Critics object to the role of Ex-Im Director Maria Haley, a friend of President Clinton, in pushing financ- ing for a Thai business group whose U.S. represen- tative made large contribu- tions to the Democratic National Committee.

► Congressional Republicans say Ex-Im's \$894 million subsidy amounts to corpo- rate welfare.

DATA BUSINESS WEEK

like, Ex-Im needs a leader whose book isn't the main attraction. "Ex-urvival depends on the credibility new chairman," says a top GOP aide. "Bringing in a political per- io muddies the waters isn't doing eny any good."

Im may be unknown to the aver- erican, but General Electric, Boe- id Motorola know it well. They enefited from Ex-Im loans, guar- and export credit insurance. Last x-Im made \$11.5 billion in financ- ible to exporters, supporting the American-made printing presses zil, aircraft to China, and tractors akhstan. The bank was subsidized

Im's relationship to Democratic donors, especially the role of Maria L. Haley, one of five Ex-Im directors and a long- time "Friend of Bill" from Arkansas who ran then-Governor Clinton's program to attract foreign investment to the state.

Haley, a native Filipino, met on several occasions with, and received numerous phone calls from, Clinton's Arkansas golf- ing buddies and political supporters. In the summer of 1996, Haley pushed for approval of \$6.5 million in loan guaran- tees for the Sun Tech Group Co., con- trolled by a wealthy Thai businessman, Sawadi Horrunguang, and represented in Washington by Pauline Kanchanalak, a native of Thailand living in Virginia. The

EUROPE

GENTLEMEN, GUN YOUR ENGINES

GM is taking a run at VW's new Golf with a retooled Astra

Now that Volkswagen and General Motors Corp. have ended their legal battle over former purchasing guru José Ignacio López de Arriortúa, the auto giants are gearing up for an old-fashioned street fight. Later this year, both carmakers will square off with spiffy, all-new versions of their top-selling models, the vw Golf and GM's Astra. Even though the cars' official debuts aren't until the Frankfurt Auto Show in September, both sides are jockeying for position, leaking information and photos to car-buff magazines.

The stakes are enormous. The small-car class is Europe's biggest, representing 4 million cars annually—or a third of the new car market. The two companies have raced to take market share from each other for years (chart), though vw has consistently come out on top. This time, GM has poured \$1.7 billion into its new Astra, in a bid to recover from an 11% plunge in sales of the current model. For its part, vw has spent an estimated \$1.8 billion on the remake of its six-year-old Golf.

The Golf's success is crucial to vw's overall financial health. Since the car accounts for 32% of vw's European sales, it will largely determine whether vw's fledgling turnaround zooms ahead or shifts into reverse. vw's 1996 net income of \$406 million was double 1995's level but just a 0.7% return on sales of \$60 billion. If the Golf sputters, it would also raise doubts about Chief Executive Ferdinand Piëch's strategy to consolidate all mod-

els in the vw, Audi, Seat, and Skoda brands onto just four platforms, which will slash production costs. "It's absolutely critical that [the Golf] is a success," says John Lawson, auto analyst with Salomon Brothers Inc. in London.

Other carmakers besides GM have taken repeated runs at the Golf, with marginal success. The Renault Megane

is the latest to mount an assault. popularity of the Megane Scenic, a van-like version of the car, helped push sales up 59% last year, to 380,000. Now Renault is scrambling to add capacity before vw and GM launch van versions of the Astra and Golf starting in 1998. **SNAFUS.** For now, vw still seems to have the upper hand. Its new Golf will hit the market first, in September, but engineering snafus have delayed the Astra. Originally scheduled for September, production of the Astra will begin until January, 1998, GM executives say. The holdup was caused by handling and other problems, which insiders say will take two more months to iron out. GM executives "are miserable," says an industry consultant.

The delayed start, plus added incentives to move the old model, will drag on GM's European earnings this year. Higher marketing costs already

ROAD WARRIORS The stakes are enormous. GM is counting on the new Astra to reverse last year's sales plunge, while VW needs the Golf's success to keep its turnaround on track



A TOUGH RACE



DATA: DRI/McGRAW-HILL

VW SPENT SOME \$1.8 BILLION ON THE GOLF (LEFT), WHILE GM POURED \$1.7 BILLION INTO A TR

ated by J.D. Power & Associates
needs a hit to reverse last year's
sales slide. "It's really like betting
hunch," says Herman.

In addition to ferreting out defects,
engineers are focused on improving
economy. That, they hope, will ap-
peal to Europeans' growing ecology-
consciousness. By efficiency measures such
as cutting assembly time by up to 30%,
VW expects to add features and still
keep the new Astra's price close to the
current \$14,198 starting sticker.

It could give the Astra a slight
edge with budget-conscious buyers. The
Astra is expected to be slightly more
expensive than the current version's
\$12,200 starting price. It'll be longer
and sport goodies such as
power windows and brakes as standard.

WIGGLE ROOM. But VW's marketers will
have wiggle room to lower prices. VW
expects a big jump in efficiency,
from farming out subassembly
to nimble suppliers. Moreover, the
huge volumes mean parts could
be cut to 20% cheaper than those on
the current Golf. VW plans to use the
Astra platform as a base for new models,
including a minivan due in 1999, and to
expand production in markets such as
China. By the turn of the century, VW
could be building more than 1.5 million
passenger cars a year, up from 800,000.
There are some doubts about the
strategy. Critics warn that its higher-end
models may be too expensive, since
current models sell for \$30,000 or
more. Other competitors are edging into
the top end of the segment and will
grab some customers. A sister
company, the \$18,922 Audi A3, which is
built on the



same plat-
form as the Golf, raced
off to a fast start last year with
sales of 34,000. And Mercedes-Benz will
enter the small car class this year
with its new \$20,000 A-Class. Mercedes
claims that the car, which will be in-
troduced at the Geneva auto show in
April, will sell 200,000 a year.

In Europe's best-selling car has
beaten its rivals for 14 consecutive
years. Despite its determined efforts,
weight GM doesn't seem fit enough
to challenge up this time, either.

By David Woodruff in Bonn

GERMANY

AUDI'S RALLY KICKS INTO HIGH GEAR

Can aggressive pricing keep its U.S. revival humming?

Barely able to sell one Audi a week,
Robert Roseta mulled getting out
of the business two years ago. His
Beaverton (Ore.) Audi dealership had
been in the red for seven years as car
buyers snubbed the German luxury
brand, which long had been dogged by
stories that one of its models had a dan-
gerous problem with
unexpected accelera-
tion. "I was hanging
on by my fingernails,
and I was beginning
to think, 'There's got
to be a better way,'" recalls Roseta.

Turns out there
was. Salvation arrived
when Audi launched
the spunky A4 sedan
in late 1995 and re-
vived a brand that had
been given up for
dead. The arrival of
the A4 gave Audi a
chance to overhaul its
whole organization by
slashing prices, simpli-
fying its model line, and promoting
youthful sportiness rather than German
engineering. The result: Audi's U.S.
sales soared 51% in 1996 as the hot new
model finally put the brakes on a 10-
year sales skid. Audi ran into trouble in
1986 when *60 Minutes* ran a report
about an alleged defect that caused
some Audis to slip into gear by them-
selves. A federal probe exonerated the
company, finding that the problem was
caused by driver error. But Audi's im-
age never recovered.

THRESHOLD. Until now. The A4 is a hit
among upscale baby boomers and is
turning Audi's U.S. unit, traditionally a
blot of red ink on parent Volkswagen's
books, into a moneymaker. It broke
even last year, ending a string of losses,
and is expected to turn a profit this
year, says U.S. chief Gerd Klauss.
Boasts Klauss: "We are on the threshold
of getting into the mainstream."

Next up: a midsize sedan that can
deliver more profits than the A4, which
starts at \$23,490. The A6, to be un-
veiled in Geneva on Mar. 4, is expected
to start below \$35,000 when it hits U.S.
showrooms this fall. That will give it
relatively aggressive pricing in a seg-
ment where it will compete with BMW.

Analysts are optimistic that Klauss can
keep a pricing edge. The dollar's
strength against the German mark has
been helping all German auto makers
lately. But Klauss has made deeply un-
dercutting the prices of German rivals a
central tenet of Audi's revival strate-
gy. The tactic helped boost Audi's world-



STAR VEHICLE
The sporty A4 has
caught on with
upscale boomers

wide sales 10% last year, to
491,900. "We realized we didn't
have the image of a BMW or a
Mercedes, but we were priced
like we did," Klauss says.

With its brand coming back,
Audi hopes to capitalize on boomers'
love affair with European sports cars
like the BMW Z3 by launching the TT
coupe and TTS roadster in 1999. The
humpbacked two-seaters will be priced
at about \$30,000. Analysts say the mod-
els will help Audi reduce its dependence
on Northeast and Northwest markets.

Audi is hot in cold climes because of
the "Quattro" feature it offers on most
models. Audi cemented its comeback by
cutting the price of the all-wheel-drive
option 82%, to \$1,600. Sales of Quattro-
equipped models jumped sixfold from
1994 to 1996. But the feature will be
less of an advantage as rival European
and Japanese upscale all-wheel-drives
hit the market, starting with the Mer-
cedes M-class due out this fall.

That looming competition is likely to
keep Audi from ever matching its go-go
years of the 1980s, when U.S. sales
peaked at 74,000 in 1985. But analysts
predict it can double its 1996 sales of
27,379 by 2000. Dealer Roseta, for one,
already has enjoyed a fourfold sales in-
crease since 1994. "Now my problem is
that I can't get enough cars," he says.
That's the kind of acceleration glitch a
company doesn't mind so much.

By Keith Naughton in Detroit

CHINA

THE PARTY IS THE PROBLEM

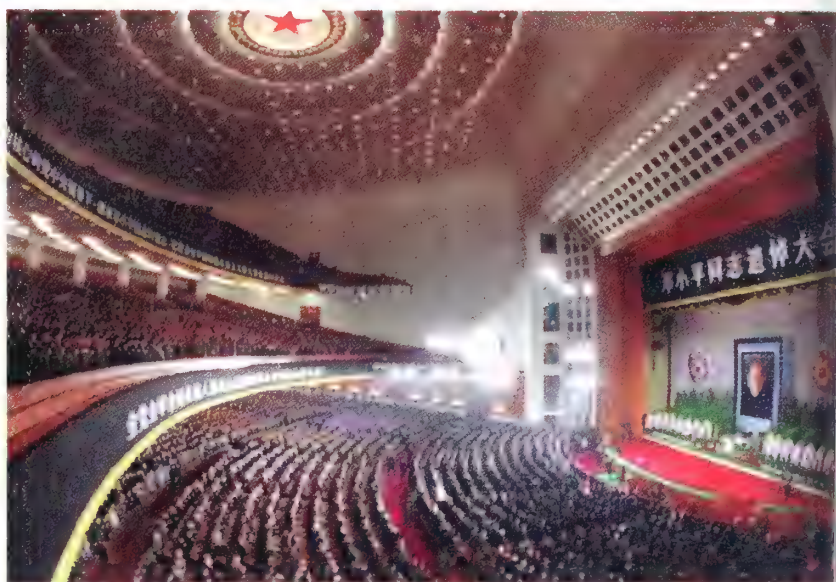
Progress demands that Jiang curb the Communist elite

It wasn't the type of public display Chinese television viewers are used to seeing from their taciturn leaders. Speaking at a eulogy for Deng Xiaoping, who died on Feb. 19, President Jiang Zemin openly sobbed as he praised the Communist Party patriarch and vowed a "deepening" of the reforms Deng launched 18 years ago.

Whether it was heartfelt or merely political theater, Jiang's emotional performance conveyed the enormous strain he will face in living up to his promise to "make greater contributions" than his predecessor. It's true that Jiang, 70, has amassed the most powerful titles in China, including head of the party, state, and military. But it is unclear whether he can tackle the biggest challenge of all: reforming China's Communist Party and easing its iron grip on power.

COLLISION. Beijing's reluctance to reform its stifling political system affects much more than the freedom to dissent. The party wields enormous economic influence through powerful ministries, and cadres and their children hold posts in state and local enterprises. The upside is that many influential Communist leaders now have a vested interest in preventing any big rollback of market reforms. "Everybody who has any power supports reform for selfish reasons," says Shan Li, Hong Kong-based executive director at Goldman, Sachs (Asia).

But the interests of the cadres often collide with the interests of the market. The courts now play a bigger role in mediating business disputes, but fairness quickly disappears when a well-connected official is involved in a controversy. People are free to start small shops and buy stocks, but they are forbidden from organizing an



DENG'S MOURNERS: Jiang wept openly as he gave the eulogy for his mentor

independent chamber of commerce or publishing an unapproved financial newsletter.

The party's pervasiveness also impedes the privatization of state enterprises. Some leaders, eager to preserve one of socialism's last bastions, want to

bolster the state sector rather than shrink it. Furthermore, cadres running these companies do not want to lose power or perks. State dinosaurs account for about 40% of industrial output and have run up \$240 billion in bad loans.

The party's supremacy meanwhile places limits on the reform of China's arbitrary legal system. Lately, there has been some progress, such as a new criminal procedure law that limits the time suspects can be held without charge. But an independent judiciary would undercut the party's control.

As leaders jockey for power in the runup to the 15th Party Congress, some may seize on these

issues. The chairman of the National People's Congress, Qiao Shi, has been calling for a greater rule of law. And on a recent trip to Shanghai and Jiangsu Province, Qiao declared there must be a "sense of urgency" in reforming state enterprises. Jiang and other politicians are vulnerable to attacks from hard-lin-

ers as well. Days after Deng's death, Maoist ideologue Deng Liqun (no relation to Deng Xiaoping) bitterly attacked Jiang and Deng for undermining the state sector and veering from Marxist doctrine.

PLAYING SAFE. There are legitimate reasons for the party to worry. One is that workers will take to the streets to protest job losses and revolt against party and government leaders. Domestic sources say that as many as 10% of workers at state companies in the northern industrial city of Shenyang have not been paid for months. Similar problems are arising in Tianjin, a city not far from Beijing.

Keeping the economy churning is especially important because, with the demise of Marxism as a credible ideology, there is little other justification for the party's dictatorship. But rather than float big new ideas for running China, now, Jiang is sticking to safer territory. One is his ongoing call for a "spirit of civilization," a combination of nationalism and traditional Chinese and socialist values that apparently is meant to fill an ideological void.

The risk is that social pressures will explode, perhaps because of a sharp economic downturn. That would force the party to come up with a new justification for retaining control. But if Jiang has his own grand vision, so far he has not articulated it. To survive in the long run, Deng's heirs will need to demonstrate more than an ability to look after No. 1.

*By Joyce Barnathan in Beijing
Bruce Einhorn in Hong Kong, with
renew reports*

WHY REFORM SCARES THE PARTY

ECONOMICS The confusing blend of capitalism and state ownership means party cadres have an interest in resisting privatization of state enterprises and opening China's markets to imports

LEGAL SYSTEM Because the party still uses the courts to impose authoritarian rule, efforts to reduce arbitrary decisions in business, criminal, and political cases can only go so far

IDEOLOGY With Marxism and most of the party's founders dead, the regime gropes for a rationale for its monopoly on power

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BY JOHN TEMPLEMAN

MEXICO'S DRUG PROBLEMS ARE ALSO NAFTA'S

President Bill Clinton's first official visit to Mexico on Apr. 11-12 was planned as a triumphal tour. It was intended to trumpet the success of the three-year-old North American Free Trade Agreement that has boosted Mexican trade 20% annually since 1994. Clinton also intended to celebrate, with President Ernesto Zedillo Ponce de León, his winning \$20 billion gamble to bail out the Mexican economy two years ago over objections in the U.S. Congress.

But a string of drug corruption scandals in Mexico has only turned Clinton's dream trip into a diplomatic nightmare. He is now fighting to stop his Latin America policy from unraveling altogether. Even the fate of NAFTA itself is on the line.

Professional opponents from both parties may introduce legislation to alter the pact after the Administration issues a mandatory report on it in May. "People who felt we were validating a corrupt system by embracing NAFTA now feel their views have been ratified," says a senior congressional staffer.

EYE. Any hope Clinton had of using Mexico as a lever to spread NAFTA membership is in tatters as Congress shows enthusiasm for close ties with the U.S.

"We ignore drug trafficking by Mexican government officials... as long as we can sell more McDonald's hamburgers," complains Representative Fortney (R-Calif.).

The trouble began Feb. 18 when Mexico abruptly dismissed Army General Jesús Gutiérrez Rebollo, who headed the national antidrug agency, accusing him and 36 aides of being the pocket of traffickers. Mexican officials failed to warn the Administration of their suspicions about Gutiérrez, who earlier had received high-level intelligence briefings in Washington. A torrent of U.S. and Mexican press revelations followed the picture by the day. Some reports allege that two

governors from Zedillo's ruling party also have links to major traffickers. Others allege that the father of disgraced former President Carlos Salinas de Gortari, as well as his brother and other kin, were deeply implicated in drug corruption.

The scandals are engulfing Mexico in a big election year. Half of its congressional seats, six governorships, and the mayorship of Mexico City are up for grabs in July. Polls show Zedillo's Institutional Revolutionary Party (PRI), which has dominated Mexican politics for seven decades, stands to lose control of Mexico City and several governorships. With an eight-point nationwide lead, however, the PRI may still hold on to its congressional majority.



ZEDILLO: Can he mollify Capitol Hill?

HILL CAMPAIGN. Zedillo, a technocrat who is not implicated in the scandals, promised to attack corruption vigorously. But his first attempt to do so by involving the Army, long considered Mexico's least corrupt institution, backfired. Analysts believe he must now completely overhaul Mexico's legal and judicial system. Zedillo snaps that it's absurd to claim that Mexico is "a corrupt country full of criminals."

But that's now the way it looks from Capitol Hill. So Mexico is moving to shore up its badly battered reputation

there. It is beefing up the congressional liaison staff at its embassy. And it will use its 41 consular offices around the U.S. to relay positive news about NAFTA to local legislators. The trouble, warns Javier Treviño, undersecretary for international cooperation at the Mexican foreign ministry, is that as Zedillo acts to clean house, the stink of corruption may get worse.

At this stage, though, Mexico doesn't have any alternative. And it must produce quick results, otherwise America's trade courtship with Mexico could end up on the rocks.

By Geri Smith in Mexico City, with Richard S. Dunham in Washington

GLOBAL WRAPUP

YELTSIN HEADS TO ROLL?

Yeltsin hopes to prove that he's back in charge after seven months of illness, Russian President Boris N. Yeltsin is facing a Cabinet reshuffle. Local newspapers predict that Prime Minister Viktor S. Chernomyrdin will be ousted soon by Yeltsin's chief of staff, Anatoly B. Chubais. But Chernomyrdin, 59, a survivor of other coups, could well beat the odds—even though Yeltsin pinned blame for the government's failure to raise wages and pensions on him.

Kremlin watchers say a more likely scenario is that Yeltsin will slash the ranks of other ministers after his Mar. 6 state of the union message. Labor Minister Gennady G. Melikyan, Defense Minister Igor Radionov, Economics Minister Yevgeny G. Yasin, and Pension Fund head Vasily Barchuk could go, along with several deputy ministers.

A FANNIE MAE FOR INDIA

► India's new \$500 million Infrastructure Development Finance Corp. (IDFC) will be modeled on the U.S. Federal National Mortgage Assn.

IDFC Chairman Deepak Parekh, a high-profile mortgage banker in the private sector, figures that's the best way of avoiding the bureaucracy and political meddling that have long bedeviled India's efforts to finance infrastructure—from telecommunications to ports and roads.

The Madras-based agency, due to open for business on July 1, will focus on credit enhancement and refinancing rather than direct lending. The Indian government, a minority 40% shareholder in IDFC, will provide loan guarantees for projects.



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ention "logistics" to most people—even many business executives—and the first thought that comes to mind is the military. In one sense of the word, that association is on target. Military logistics is the process of moving men, material, and supplies to support an operational mission.

In the business world, though, logistics has a broader meaning. According to the Council of Logistics Management, an international organization of supply-chain professionals, business logistics is "the process of planning, implementing, and controlling the efficient, effective flow and storage of goods, services, and related information from point of origin to point of consumption to meet customer requirements." Put simply, it's the process of getting the right product to the right customer at the right time and at the right price.

TOWARD A \$900 BILLION MARKET

The logistics market—defined as all of those activities associated with moving product and raw material through the supply chain to the consumer—is huge. And it's growing exponentially. Logistics incorporates all of the freight transportation modes



Like Roberts Express, Caliber Logistics also uses Qualcomm units to enable up-to-the-minute shipment information.

such as trucking, rail, air-freight, ocean, and barge. It includes warehousing, inventory management, and fleet operations. Freight forwarding and customs brokerage services are part of the logistics mix, too, as are the software and information technology used to support the flow of goods to market.

The total logistics market—now somewhere in the \$600 to \$700 billion range—will grow to \$900 billion by the year 2000. "Logistics is driving the capital value not only of companies, but also of our national economy," says Mike

Jenkins, president and CEO of the North American Logistics Association in Park Ridge, Ill. "Logistics costs represent more than 10 percent of our nation's gross domestic product and typically account 10 to 15 percent of a company's gross sales."

A joint study by the National Industrial Transportation Board and *Logistics Management* magazine confirms the new strategy that logistics now plays. More than two thirds of the logistics professionals surveyed said that top management regularly seeks their opinion on how logistics can provide the company with competitive advantage

by enhancing customer satisfaction and boosting profitability. That's a far cry from a decade or two ago when traffic, transportation, and warehouse departments were viewed as necessary evils that had more to do with adding costs than generating profits.

"Logistics is really evolving from a functional to a strategic operation," observes David B. Edmister, vice-president of corporate sales for Akron, Ohio's Caliber System, Inc. "We're now seeing more executives at the officer level becoming involved in logistics activities." Caliber System is the parent of four operating companies—RPS, Viking Freight, Roberts Express, and Caliber Logistics—that offer a range of services, including package, freight, expedited, and logistics services.



SERVICE PROVIDERS ARE THE KEY

Recognizing that an integrated logistics strategy can provide a sustainable competitive advantage is only the first step. Companies have to implement that strategy—increasingly on a global scale. Here's where the providers of logistics services come in. They include the motor carriers, airfreight companies, railroads, and ocean carriers that provide the equipment and services needed to execute a company's to-market strategy.

In addition to these transportation carriers, a new breed of service provider has emerged called third-party or contract logistics companies. These specialists provide a bundle of value-added services, including many tasks that the customers at one time performed in-house.

Companies today are demanding more and more from their service providers and the good ones are responding. They want

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than just a truck to haul goods or a warehouse to store spare parts. Instead, they insist on logistics solutions that will help them achieve their overall business goals. They want programs that will speed goods to market, reduce inventories in the pipeline, and, at the end of the day, improve profitability.

"Customers want a logistics provider that not only manages their supply chain, but also provides the multimodal transportation services to streamline it," says Randy Clark, managing director of Emery Global Logistics. "Logistics providers must be able to handle ocean freight, airfreight, trucking, and customs brokerage, utilizing advanced software to manage the transportation flow and optimize routings."



Some of the techniques developed to leverage logistics have by now become part of the business vernacular. They include just-in-time (JIT) distribution, whereby product is delivered to the assembly line or the retail outlet just when it is needed—and not before. The grocery industry has launched an ambitious efficient consumer response (ECR) initiative to take excess inventory and costs out of the distribution pipeline.

All of these techniques have a common denominator. They stress speedy, reliable, time-definite service. "For carriers, time-definite delivery is a necessity," emphasizes Bernard J. LaLonde, professor emeritus of logistics at Ohio State University. "The window is closing and it's going to keep on closing."

Successful companies recognize this and have put in place programs that respond to that imperative. Here are a few examples:

- ✦ Consolidated Freightways has created a "Business Accelerator System" designed to speed transit times and deliver product within a tight time window tailored to customer requirements. The nationwide motor carrier completely restructured its network to develop this service, closing or consolidating a number of terminals.
- ✦ Another major trucking company, Roadway Express, offers "Express From" service to speed the movement of domestic and international freight. Using the same Sabre scheduling technology pioneered by the airlines, Roadway schedules departures based on the service needs of the customer, rather than waiting for a truck to fill up as is the traditional practice.
- ✦ When freight can't wait for expedited trucking, Roberts Express offers immediate door-to-door service on equipment dedicated exclusively to the customer. Using advanced satellite communications technology, Roberts Express will dispatch anything from a van to a tractor-trailer unit—24 hours a day, 365 days a year.
- ✦ Federal Express has launched a new service that lets companies fulfill orders that are made on the Internet.



STREAMLINED TRANSPORTATION SECTOR

The increasing customer demands that fostered these expedited services reflect a new, intensely competitive transportation environment. The inefficient have been driven from the industry by survivors forced to restructure and streamline to become strong. And nowhere is this any truer than in the less-than-truckload segment of the motor carrier industry.

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"Today's competitive arena has forced everyone to position themselves for greater operating efficiency," observes Don Schaefer, a spokesman for the Midwest Trucking Association. "This means consolidating terminals, eliminating multiple handling, instituting cross-docking procedures that expedite the flow of freight."

As this dynamic industry moves toward the 21st century, the old dichotomy of national and regional motor carriers no longer applies. According to Alex. Brown & Sons, a Baltimore-based investment banking firm that closely tracks the industry, a more accurate industry segmentation today includes these components:

- ✦ **Longhaul truckers.** These unionized national carriers serve all points in the United States. They operate extensive hub and spoke networks (which they've been working hard to consolidate). The "Big Four" carriers in this category—Consolidated Freightways, Roadway, Yellow, and ABF—account for roughly 80 percent of all LTL revenues.
- ✦ **Superregionals.** This new breed of carrier defies the traditional national/regional pigeonholing, says Alex. Brown. Like the nationals they operate some hub-and-spoke networks, yet their average length of haul is between 400 and 750 miles. Though the superregionals run mostly two-day service lanes, they also do a lot of overnight delivery. Well-known names among this group of mostly non-union carriers include Viking Freight System, American Freightways, and the Con-Way Transportation companies. This growing category generates about 30 percent of revenues in the LTL sector.

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Dave and Buster's had a problem. In the process of opening their newest store, a mishap with a vendor resulted

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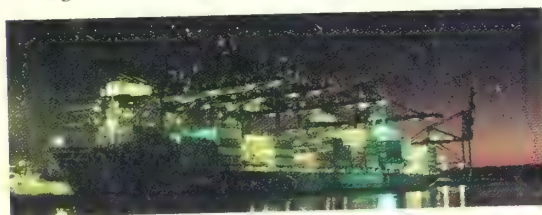
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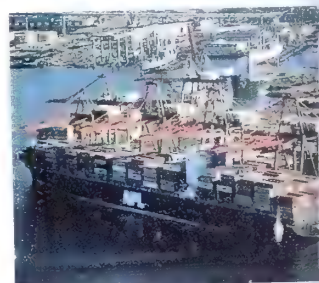


services provided by Emery Global Logistics include supply chain management; customized information technology; inventory control; warehousing; distribution and transportation management; project management; QuickSource warehousing; customer service/order fulfillment; and freight auditing and payment.

The principal mission of the transportation industry today is to help customers remain competitive in an increasingly complex global environment. Emery Worldwide has evolved accordingly to provide creative and innovative solutions to accomplish this goal.

✈ **Regionals.** These motor carriers specialize in overnight delivery within a relatively small and well-defined service area. By moving freight directly between points, they eliminate the need for costly terminals. Their average length of haul is short, typically less than 300 miles. Most of the trucking companies in this category are nonunion.

Like the motor carriers, the railroads and the ocean carriers are streamlining operations in response to market realities. The rail industry, in particular, has consolidated markedly in recent years. Even further consolidation is expected to come this year with the acquisition of Conrail either by CSX or Norfolk Southern. Only seven major rail lines will remain in North America, down from more than twice that number a decade ago.



An APL container ship relaying to its doublestack train network.



With consolidation has come new efficiency. The industry's intermodal network now crisscrosses the United States, bringing cost-effective longhaul rail transportation to virtually every major market. An increasing percentage of this network is double-stack service—one container stacked atop another for greater operating economy. The growth of this segment is reflected in the service network of APL, operator of one of the most extensive stacktrain networks in North America, which also provides ocean transportation and freight consolidation services, now offers double-stack container service between more than 60 terminal locations in the United States, Mexico, and Canada.

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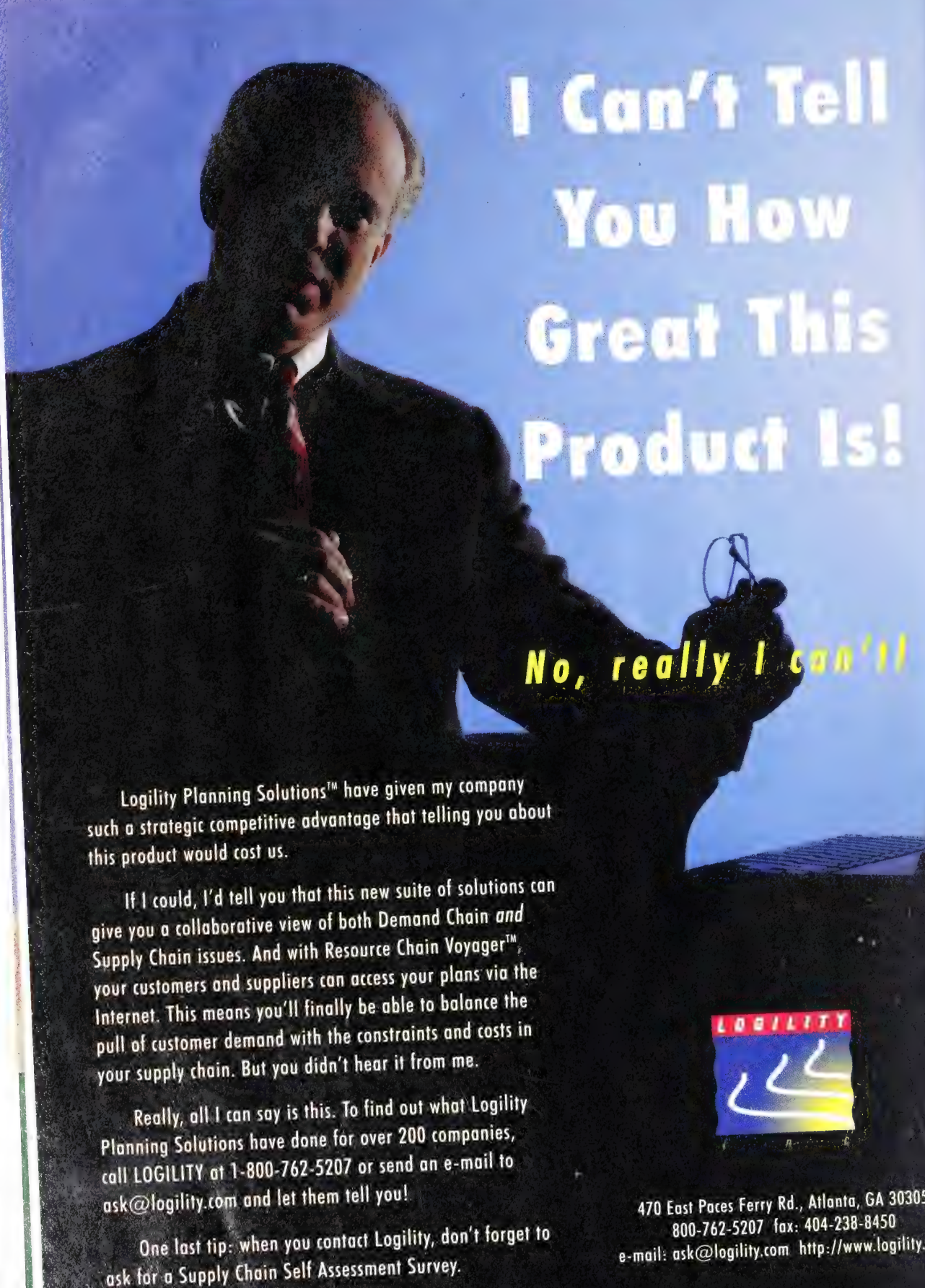
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On international shipments, the partners in this burgeoning modal business are the ocean carriers. And in this industry, too, consolidation is proceeding. Two of the biggest ocean carriers—Holland America Line and P&O Containers—have merged to create the world's biggest line, P&O Nedlloyd. Meanwhile, a number of other ocean carriers such as Sea Land and Maersk are forging operating alliances to improve asset utilization and customer service.



THE EMERGENCE OF THIRD-PARTY LOGISTICS

Others also are the winners in another seminal trend taking place: the emergence this decade of specialists that provide multiple, integrated services on behalf of their clients. These service companies are known by various names e.g., third-party providers, integrated logistics companies, and contract logistics specialists among them.

In many cases, they perform services that used to be done in-house by their customers—the practice of outsourcing. Specific activities being outsourced today cover a broad spectrum, encompassing all of those interrelated processes associated with getting a product to market. They include transportation and fleet management, carrier selection and negotiation, warehousing and inventory management, order fulfillment, product packaging, shipment coordination, and more.

Many companies also turn to these outside specialists for the software and systems needed to manage their “inventory in motion.” “These organizations realize that they are not in the logistics technology business,” says Andrew Stewart, vice-president of technology for Trans Logistics Solutions of Richmond Hill, Ontario, a leading provider of transportation-based software. “Leading third-party providers differentiate themselves by their ability to provide superior

MENLO LOGISTICS APPLIES SCIENCE OF CREATIVE SOLUTIONS

As businesses have focused more on their core strengths over the past decade, they have discovered the tremendous efficiencies of outsourcing the logistics function. A \$25-billion industry today, the rapidly growing contract logistics industry is expected to double by the year 2000. That's largely because today only about 25 percent of the top manufacturing companies have formulated any distinct supply chain management strategy. By the 21st century, however, it's expected that more than 50 percent of warehousing and logistics functions will be outsourced.

Menlo Logistics has emerged as a leading force in this dynamic new industry. By partnering



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with Menlo, clients such as Hewlett-Packard, IBM, AT&T, Sears, Dow Chemical, Coca-Cola, Frito-Lay, Nike, and Frigidaire have quickened product-to-market cycles, reduced inventory and transportation costs, improved on-time deliveries and enhanced overall service to their customers. This has given them a competitive advantage in their own marketplace.

or logistics technology solutions.”

Outsourcing has made deep inroads in recent years; even more dramatic growth is forecast. Last year, U.S. manufacturers and distributors spent more than \$25 billion on outsourced logistics services, estimates Robert V. Delaney, vice-president of Cass Information Systems in St. Louis, Mo. “That's a penetration of six percent of the relevant market,” says Delaney, who has tracked third-party logistics since the beginning of this decade.

Delaney, like most industry analysts, expects this market penetration number to rise rapidly as the 21st century approaches. As more and more companies outsource their logistics operations, he believes, third-party and contract providers will capture 10 percent of the total logistics market by the year 2000.

Not surprisingly, outsourcing's growth potential has attracted a lot of players to the field including some of the best-known names on the North American transportation scene. Ryder, for example,



has Ryder Integrated Logistics. Truckload giant Schneider National operates Schneider Logistics. Caliber Logistics is part of the family that includes RPS, Viking Freight System, and Roberts Express. There is Menlo Logistics, a CNF Transportation sister company of

Emery Worldwide. Recently, Penske Truck Leasing acquired LeaseWorx and created a new third-party operation called Penske Logistics.

Package express giants UPS, Federal Express, and RPS now offer a comprehensive menu of third-party services, too. Large warehouse operators like Exel Logistics, GATX Logistics, and USCO Distribution Services are similarly prominent in the logistics outsourcing business.

In short, the field is already crowded and promises to become even more so. One of the newest entries is Redwood Systems of Menlo Park, Calif., a subsidiary of trucking giant Consolidated Freightways. And more new players are jumping into the market every other week.

"Our business has grown exponentially the past few years with existing and new customers," says John Williford, CEO of Menlo Logistics in Menlo Park, Calif. "We're seeing a growing number of projects that are larger, more complex, more fully integrated and more international in scope. In addition to running warehouses and improving transportation, our customers are asking us to develop new technology that enables them to integrate our systems with their customers' and suppliers' systems."



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THE EMERGENCE OF THIRD-PARTY LOGISTICS

There's a big difference between taking a risk and making a gamble on which third-party logistics company to hire. Learn what services are really provided, who provides them and why. You'll be better able to make a decision whether or not to outsource after reading *The Emergence of Third-Party Logistics* by Coopers & Lybrand Consulting's SysteCon Division, specialists in outsourcing arrangements.

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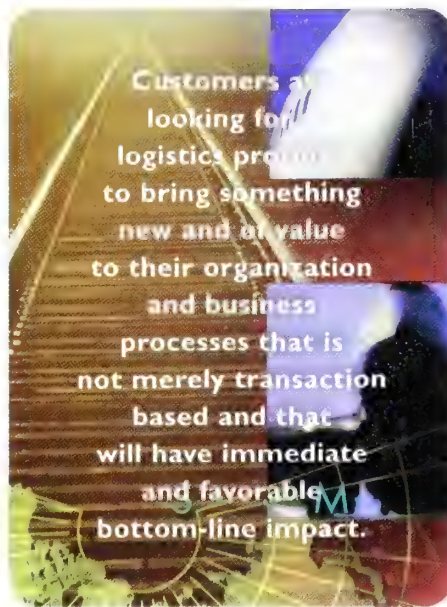
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Analyzing the factors driving the growth of third-party logistics, T. Ron Gable, managing partner of Coopers & Lybrand's SysteCon Division in Atlanta, offers this observation: "Customers are looking for a logistics provider to bring something new and of value to their organization and business processes that is not merely transaction based that will have immediate and favorable bottom-line impact." He adds that companies look for providers who can add this value both at the national and global arenas.

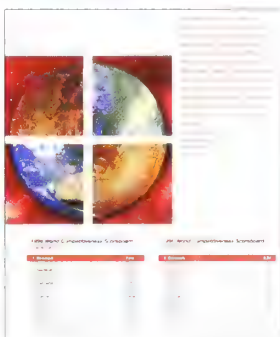
A recent study of third-party logistics jointly conducted by Northeastern University and Mercer Management Consulting of Boston, Mass., found that five main objectives motivate buyers of third-party services: reduce costs; focus more intensely on the core business; improve operational efficiency; achieve greater flexibility; improve expertise/market knowledge.

The substantial costs savings are perhaps the most immediate to warehousing and logistics outsourcing. "We've seen logistics cost savings ranging anywhere from five to 55 percent," says



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Douglas E. Christensen, president and CEO of Logix, a national contract logistics company based in Long Grove, Ill.. By outsourcing warehousing alone, companies typically save 10 to 15 percent, Christensen has found.

In addition to the cost savings, companies are drawn to outsourcing by the service enhancements. Contract logistics and third-party companies argue, logically, that since getting product to market is their main focus, they can do the job more efficiently than companies whose basic strength lies elsewhere.

SOFTWARE AND SYSTEMS

Information technology is one more reason why companies turn to third-party logistics companies. "Information is the greatest need most customers have today," says Frank Mileto, executive vice-president of Penske Logistics, based in Reading, Penn. "Our current focus is to link our customers' systems with ours. We have found that most effective operations involve a high level of integration and an open dialog between the customer and the logistics provider."



PENSKE AND GM: PROFILE OF A PARTNERSHIP

With nearly 400 suppliers in 14 states shipping materials to 30 assembly plants on a call-and-demand basis, General Motors found its inventory and distribution costs rising and its facilities congested with less-than-truckload (LTL) truck traffic. GM turned to Penske Logistics for a customized solution.

"GM had three major objectives, says Greg Humes, senior vice-president of Penske Logistics' Central Region, "to reduce costs, to improve inbound material management and information processing, and to reduce its carrier base."

Penske evaluated the automotive manufacturer's distribution processes and recommended the use of a cross-dock distribution center strategically located in Cleveland. Staffed and managed by Penske Logistics personnel, this facility receives, processes, and consolidates inbound materials. Penske Logistics also implemented a dedicated fleet of 60 tractors and 72 trailers and handles route development, scheduled supplier pickups, and JIT delivery.

Penske schedules supplier pickups based on parts usage levels communicated via EDI from GM. Once received, a shipment crosses the dock for immediate staging and is labeled with in-plant routing instructions designed to expedite delivery at the proper location within the facility. The freight is then loaded onto outbound trailers. The process involves five million pounds of freight each week.

Penske Logistics uses dynamic routing to increase the frequency of supplier pickups, thus reducing inventory levels and improving outbound material flow. On-board computers using satellite technology allow continuous two-way communication between drivers and dispatchers.

By consolidating inbound shipments at the distribution center and shipping full truckloads to the plants, Penske was able to lower LTL trucking costs and reduce GM's carrier base. Penske Logistics selects and manages those carriers necessary to supplement the dedicated fleet. This has reduced GM's administrative costs by processing "one bill" for LTL services and cut transit times by 18 percent.



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Ellen Valentine, vice-president of Logility, a subsidiary of American Software in Atlanta, adds that today's software solutions can substantially improve service levels, reduce inventory, and boost profit.

Typically, third-party logistics firms offer software and systems support for warehousing and inventory management, order processing, customer invoicing, and returns processing. They also provide information technology for shipment tracking, shipment routing and carrier management software, freight bill payment, freight claims, and transportation analysis.

The logistics software programs, in particular, are varied and versatile. The Venture Freight Management Software from InterTrans Logistics Solutions, for example, automates the process of choosing transportation carriers, consolidating shipments, sending out tenders, creating documentation and generating invoices. The software

the logistics market," believes Thomas J. Escott, president of Caliber Logistics Inc. "Another will be the skill in which third-party logistics providers can forge alliances with other companies such as truck leasing and warehouse operators," he says.

"Contract logistics providers also will have to focus intensely on process engineering to identify best practices and design work processes that will improve results," adds Escott. "And they will have to develop communications systems to integrate the multiple functions and components and create a linked environment to deliver productivity improvements."

LOGISTICS AS A PROFIT DRIVER

Is it worth the time, effort, and expenditure of considerable resources to carefully craft a comprehensive logistics strategy?



also handles multiple shipment requests and provides electronic data interchange (EDI) for tracking and tracing freight. This program can be used either by a contract logistics company on behalf of a client or by a shipper directly.



An example of a software product intended for contract logistics companies exclusively is InterTrans's Venture Third Party Logistics program. This fully integrated, "multimodal" program encompasses the full scope of logistics activities—from shipping to carrier management and financials. It integrates with the third party company's existing operations to streamline, automate, and optimize the business.

"The ability to support customers with these kinds of information technologies will be a key determinant of future success in

then go through the demanding process of evaluating and selecting logistics partners to implement that strategy?

Mercer Management Consulting, specialists in this area, has some answers. A recent Mercer study found that "best practice" logistics and supply-chain organizations lead their competitors in reducing operating costs, compressing order cycle time, and improving asset productivity. These leaders aggressively use information technology to improve both the balance sheet and the income statement while keeping customer service levels high.

In short, leading-edge companies have discovered the competitive advantages of logistics.

Author Francis J. Quinn has been covering transportation and logistics in North America for two decades.

COVER ILLUSTRATION: PETER BROWN DESIGN: JEFFREY FOLEY

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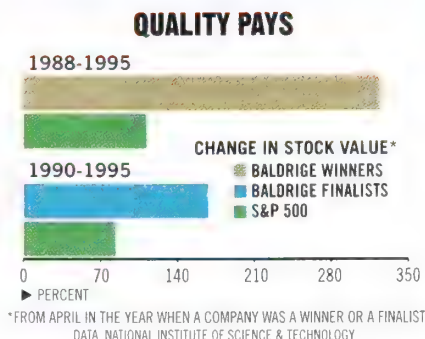


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BALDRIGE'S OTHER REWARD

SPITE THE HIGHLY PUBLICIZED PROBLEMS OF a winner of the Malcolm Baldrige National Quality Award—Houston's Wallace Co., which went into Chapter 11—the efforts of implementing a quality program usually pay off, especially for investors. The 16 winners since 1988 have outperformed the Standard & Poor's 500-stock index by 3 to 1 in terms of return on investment (chart).

Even the 48 companies that didn't take home a Baldrige but made it to the final round judging have bested the S&P 500 by 2 to 1, according to a recent study by the National Institute for Science & Technology, which each April invests an imaginary \$1,000 in the winners and finalists of the Baldrige Quality Award competition. □



THIS WHY THE BACTERIA IS IT HOT?

UNUSUAL COMPOUND contains phosphorus may unravel the mystery of certain forms of life can exist at temperatures near boiling point of water—now industry might exploit this remarkable heat tolerance in a new generation of enzymes.

The compound, called DIP,

has just been found in *Thermotoga maritima*, a bacterium that flourishes near undersea volcanic vents.

DIP had previously been spotted in archaea, a recently discovered family of microorganisms that love being in hot water. Its presence in another form of heat-loving life is strong evidence that DIP probably plays a role in insulating biological systems from the effects of heat, according to Michael W. Adams, a biochemist at the Universi-

ty of Georgia and a member of the research team that found DIP in the first bacterium. Pinning down what role DIP plays in protecting against heat, Adams adds, is the next research job.

Enzymes derived from the organisms could be a boon to business and industry. Because they are able to survive the heat of chemical reactions, they could speed up multistep processes. For processed foods, that could make them taste fresher. □

ARTIFICIAL EYE ON QUALITY IN TEXTILES

EVERY MINUTE, A HIGH-speed automated loom at Johnston Industries Inc.'s factory in Phenix City, Ala., automatically rolls out another yard of finely woven fabric. The patterns in the resulting material are practically flawless, thanks to sensitive monitoring cameras and computer software developed at the Georgia Institute of Technology.

This prototype system, which uses a portfolio of artificial intelligence techniques including fuzzy logic, neural networks, and allied wavelets

—is not the first AI tool that has been used for quality control in textile manufacturing. Elbit Vision Systems Ltd. in Haifa, Israel, already markets inspection gear that spot-checks fabric as it is transferred from a loom onto rolls. But the



Georgia Tech system, says Engineering Professor Lewis J. Dorrity, gets higher marks because it can identify problems sooner, while the yarn is still on the loom, ignoring unimportant variations in color, yarn thickness, or quality.

In addition, Georgia Tech's system automatically runs diagnostics on mechanical parts of the loom that gradually wear down and can abrade the cloth.

The technology will be commercialized by Appalachian Electronic Instruments Inc., a manufacturer of textile equipment in Ronceverte, W. Va. Neil Gross

INNOVATIONS

■ TRW Inc. has unveiled a power-steering system that engineers can tune with a computer to adjust its performance to match a variety of vehicles, from subcompact cars to luxury sedans and minivans. On assembly lines, the electrically powered steering (EPS) system is designed to be "dropped in" quickly, in just 30 seconds, says TRW. On the road, the system's chip brain knows to kick in only when needed, so it can improve mileage by up to 0.6 mile per gallon. That's one reason the company expects EPS to show up first on compact cars in Europe.

■ For contact lens wearers, life may soon get easier. Developers of a new extended-wear lens claim it can be left in the eye for up to a month. The secret: a special polymeric material that's five times more permeable to oxygen than current lenses. The new plastic lens helps keep the cornea free from infections by bathing the eyes in oxygen even during sleep. The lens, now in trials designed to win U.S. approval, was developed in Australia by the Cooperative Research Centre for Eye Research & Technology at the University of New South Wales, with support from Ciba Vision Corp. in Duluth, Ala.

■ Researchers at Los Alamos National Laboratory have developed a simple litmus test to spot degrading concrete even before cracks or other warning signs become visible—and it can be done on the spot. Just pour an environmentally benign chemical mixture on a concrete sample. If the concrete is suffering from alkali-silica reaction, a common cause of premature failure, the chemicals flag the problem by changing color within minutes.

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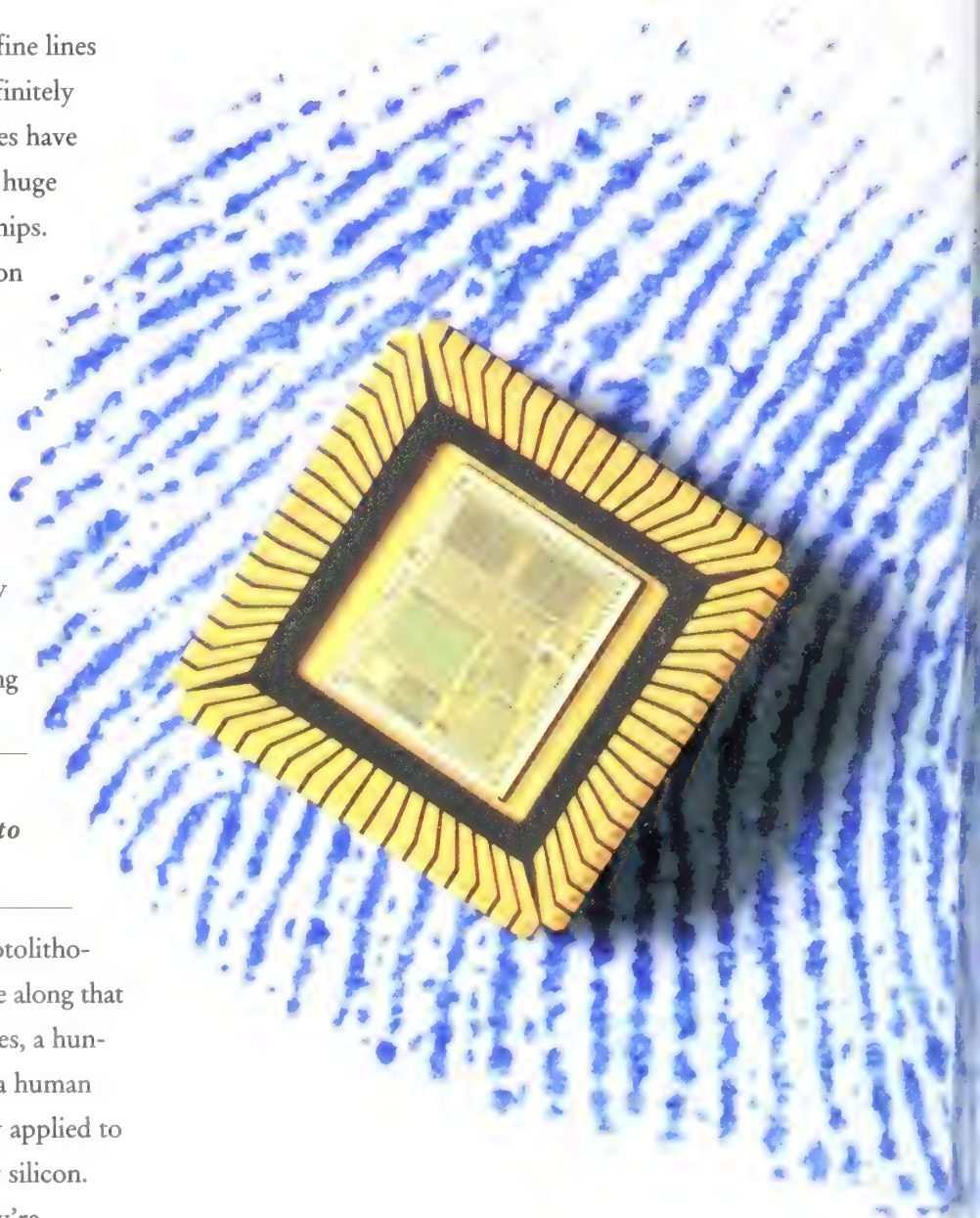
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commonly known, are light-sensitive resins whose solubility is altered when exposed to light.

Hoechst developed the first positive-action photoresists for high-precision structures in 1962.

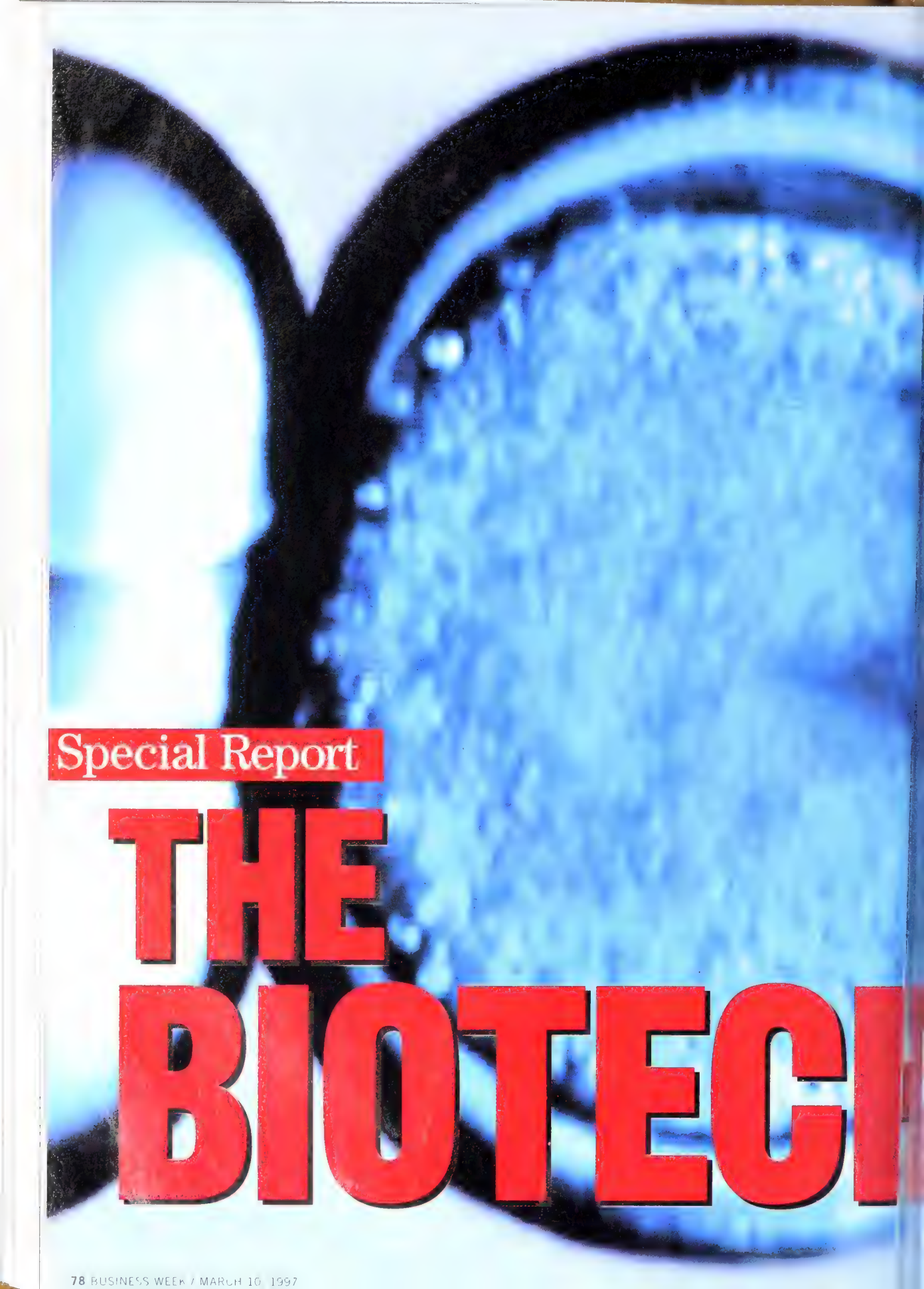
Since then, our research staff has been involved in studying and refining the chemical structures of new photoresist products needed to meet the ever increasing material requirements for continually shrinking microchips. This effort has also resulted in special materials that enhance the yield and extend the life of existing photoresists.

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Special Report

THE BIOTECH

The grand, tumultuous pageant of human history is, in a large part, propelled by technology. Metalworking and improved agriculture carried civilization out of the Stone Age. In the 19th century, the Industrial Revolution gave rise to mighty machines and sprawling cities. In the 20th century, physics became king. Physicists split the atom, explored the bizarre worlds of relativity and quantum theory, and harnessed the power of tiny chips of silicon. Along the way, they transformed the world with the atom bomb, the transistor, the laser, and the microchip. But now, many experts believe, humankind is poised to ride a new wave of scientific knowledge in the headlong rush to the future. "This was the century of physics and chemistry," proclaims 1996 Nobel prize-winning chemist Robert F. Curl of Rice University. "But it is clear that the next century will be the century of biology."

On Feb. 22, that century was suddenly upon us—arriving years sooner than anyone expected, not like a lion but in the guise of a lamb. A previously obscure 52-year-old Scottish embryologist, Ian Wilmut, stunned the world by announcing that he and his team at the Roslin Institute outside Edinburgh had created an exact copy—a clone—of an adult Dorset sheep. The historic lamb, created from DNA extracted from the sheep's mammary gland, was named Dolly. "We couldn't think of

SCIENCE OF THE LAMBS: *A sheep ovum is injected with an embryonic cell*

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A PRIMER *DNA for dummies: The basics of genetics...* **84**

THE ETHICS *When science fiction meets social reality...* **84**

THE COMPANIES *Start-ups with a keen eye on commerce...* **90**

There's a revolution brewing in the lab,
and the payoff will be breathtaking

21ST CENTURY

anyone with a more impressive set of mammary glands than Dolly Parton," says Wilmut.

Wilmut's trick was to replace the genes in a normal sheep oocyte, or egg, with DNA from an adult sheep mammary gland. He prodded the egg to grow and inserted it into the womb of another sheep. Last July, Dolly was born—an exact genetic copy of the adult whose mammary gland was tapped for DNA.

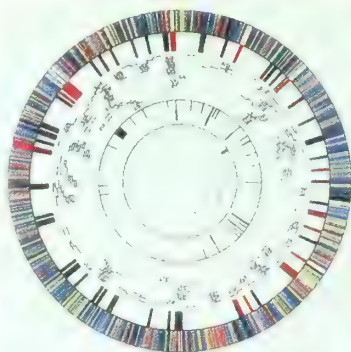
Wilmut and other scientists say that in principle, the same technique should work for any other mammal—including humans. Dr. Jon W. Gordon, an obstetrics

Special Report

THE BIOTECH CENTURY

researcher at the Mount Sinai Medical Center in New York, notes that cloning a human might not be so simple. Some genetic experiments that work in mice don't work in rats, and vice versa—suggesting that all mammals are not quite the same. And the first step, he said, will be for others to repeat Wilmut's dazzling experiment—to be certain that the results are correct.

If Wilmut's work is confirmed, it suddenly becomes possible to imagine some mind-bending consequences. Improvements in sheep and cattle ranching would be only the beginning. If the cloning of humans ever became practical, grieving parents might conceivably choose to clone a dying child. Some individuals might make a desperate grab for immortality by trying to clone themselves. Already, scientists are joking that the richest and most egotistical among them are hopping the next plane to Scotland. "It's an incredible development," says Arthur L. Caplan, director of the Center for Bioethics at the University of Pennsylvania. "Unfortunately, we don't have the legal and ethical basis to handle it yet." Two days after the cloning was announced, President Clinton asked for a national commission to review what the White House called



HEMOPHILUS This bacterium, which causes meningitis and childhood ear infections, was the first organism for which researchers identified the entire genome—the complete set of genes. One goal: pointing the way toward new drugs and vaccines.

the "troubling" implications cloning.

And yet, the headline-grabbing lamb represents only a tiny slice of what's just around the corner in biology during the coming century. Science is on the brink of an unprecedented explosion in its ability to understand and manipulate life.

Until recently, researchers were forced to painstakingly search for genes one by one. The effort to nab the cystic fibrosis gene took 10 years and cost more than \$10 million, for example. To isolate one obesity gene required a decade of work.

Now, however, gene sleuths are approaching from the other direction.

They are deciphering the entire genetic code—known as the genome—of a wide variety of organisms, from humans to microbes. As the genomes are being decoded, or "sequenced," researchers are separating the individual genes, beginning to discover what each of them does.

Already, the fully sequenced genomes of microorganisms have been published, and the cost is now as low as \$300 per gene. Some 50 more, including those of the devastating malaria parasite and other disease-causing organisms, will be finished by the

end of the 1990s. And thanks to ambitious Human Genome Project and similar efforts in plants and animals, scientists will hold in their hands the complete blueprints of everything from nematodes and mustard plants to mice and men by the first decade of the 21st century—all neatly catalogued in computer databases.

Eric Lander at the Whitehead Institute for Biomedical Research in Cambridge, Mass. likens these complete genomes to the periodic table of elements, the basis for 20th-century research in chemistry. Stanford University geneticist Richard M. M. says having the genomes "expanding people's imaginations, making them think on a grand scale, asking and answering questions that would never have dreamed of before." Adds Monica Riley, senior scientist at the Marine Biological Laboratory in Woods Hole, Mass.: "In the near future, we will know

A ROADMAP FOR BIOTECH RESEARCH

The new biotechnology allows scientists to get at the most basic functions of life, deep inside the complex interactions of genes. Here are some key developments.



DOLLY Dr. Ian Wilmut and his colleagues at the Roslin Institute added new genes to 277 eggs before they got one to grow into the world's most famous sheep. Researchers elsewhere will now be rushing to duplicate the feat.

thing that goes into making up a living cell. It's an exhilarating time to be doing science."

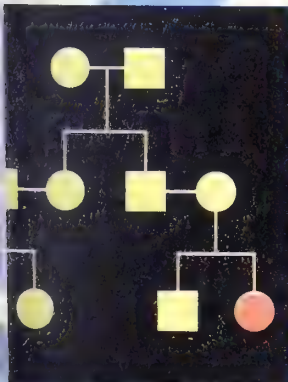
No one doubts that the payoff will be immense. By 2003, farmers

growing plants that make enough plastic
 our dependence on oil. The massive
 of information holds the promise of a
 f new drugs and treatments—and a far
 understanding of human behavior, health,
 sease. “It gives us tremendous hope we
 ally win the battle against bacteria,” says
 g Venter, president of the Institute for
 ic Research
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 computers. Even further afield, the
 e information will illuminate pre-
 dim corners of history—by ana-
 genetic variations among popula-
 We can ask: ‘Where did we come
 How many migrations did our
 ors make out of Africa?’” ex-

MUSTARD WEED

Researchers have
 begun to decipher the
 complete genome of
 one plant—the mustard
 weed, known scientifi-
 cally as *Arabidopsis*.
 The eventual result
 could be supercrops or
 trees that would yield
 such products as plas-
 tics and drugs.

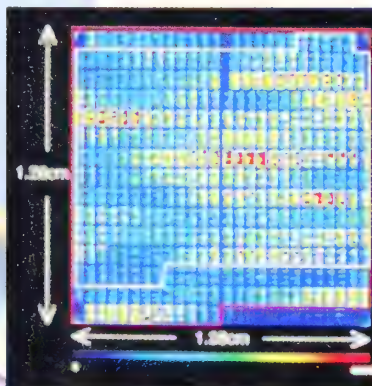


FAMILY TREES

Researchers are now
 using large families,
 often from genetically
 isolated communities,
 together with powerful
 computer technology,
 to identify genes
 involved in more
 complex disorders such
 as diabetes and heart
 disease.

YEAST, DROSOPHILA, C. ELEGANS

Two of these simple
 organisms—fruit flies
 and tiny round
 worms—are very close
 to being sequenced;
 yeast has been done.
 Many genes are
 remarkably similar to
 ours, offering new
 clues to fight disease.



DNA CHIPS

The
 marriage of microchips
 and DNA is a natural.
 Researchers are using
 chips to rapidly identify
 genetic variations in
 specific tissues.
 Comparing diseased
 and healthy tissue can
 reveal causes of
 disease.

plains Mary-Claire King, a gene hunter at the
 University of Washington.

Of course, none of this will be easy. The dis-
 covery of a gene or the elucidation of a com-
 plicated biological pathway may be only a
 small step toward a cure or useful medicine.
 The gene for sickle-cell anemia is one example.
 It was identified 20 years ago, but there still

are no cures. Now, with thousands
 of new genes being discovered every
 year, pharmaceutical and biotech com-
 panies are awash in potential targets
 for drugs. “But drug discovery has
 turned out to be a bear,” says Larry
 M. Gold, chief scientist of NeXstar
 Pharmaceuticals Inc.

What’s more, the biological century
 will bring myriad moral and legal co-
 nundrums. Should doctors, for exam-
 ple, test for genetic conditions or pre-
 dispositions they can do virtually
 nothing about? Will employers and
 insurance companies get access to

the results of
 those tests?
 Should they be
 able to use that in-
 formation to deny
 employment or insur-
 ance coverage? Already,
 British companies say they
 have been using genetic in-
 formation to set rates and eli-
 gibility criteria for buyers of life
 insurance (page 84).

These hurdles and dilemmas, how-
 ever, are far from the minds of many sci-
 entists toiling in university and company
 labs to understand the biology laid bare by the
 new genetic information. What they see instead
 is the chance to transform not just science but the
 world of the next century, just as the microchip changed
 this one. And the story really starts with one of the simplest
 forms of life—bacteria.

In July, 1995, Venter’s team made history by completing
 the first full gene sequence of a living organism other than
 a virus. The bacterium was *Hemophilus influenzae*, which
 causes meningitis and children’s ear infections. In the two



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COMPAQ

years since, researchers have used the sequence to uncover what Venter calls a "remarkable biological mechanism that could totally change the basis of vaccine and drug development."

Geneticist Richard Moxon of Oxford University discovered that the bug is essentially preprogrammed for constant evolution. Like all cells, its genes contain the information to make proteins. But special sequences

Special Report

THE BIOTECH CENTURY

tucked in its genome cause the process to go awry periodically, creating new forms of key proteins. That enables *H. influenzae* to evolve on an hourly basis, evading the human immune system. Standard vaccines also target these proteins, which is why they don't work very well. The trick will be mining the genome to dig out more obscure proteins that the bug can't change so rapidly. Researchers at MedImmune Inc. in Gaithersburg, Md., are using this strategy to develop better vaccines.

PINCH OF YEAST. Drug companies are also interested in searching the genome for places to attack with new types of antibiotics. To help put a price tag on this sort of genetic information, Genome Therapeutics Corp. in Waltham, Mass., recently sold the sequence of *Helicobacter pylori*, the bug that causes ulcers and possibly stomach cancer, to Swedish pharmaceutical giant Astra for a cool \$22 million.

Higher up the evolutionary ladder, sequencing the genomes of creatures like yeast, nematodes, and fruit flies is leading to advances. Once nature finds a biological pathway that works, she tends to use it over and over. As a result, "the majority of human disease genes that have been found have counterparts in yeast" and other simple organisms, explains S. Michal Jazwinski, professor of biochemistry and molecular biology at Louisiana State University in New Orleans. Just as important, the animals can be experimented on to understand these shared genes and biological pathways, something that can't be done in people. Geneticist Michael Wigler of Cold Spring Harbor Laboratory in New York used yeast to figure out the biology of a gene, called

DNA FOR DUMMIES: THE BASICS YOU NEED TO K

The blueprint of life is **DNA**. Its famous double helix is a long, long chain built by linking together four simple molecules. The order in which those molecules are linked determines the information contained in the DNA. It is the **SEQUENCE** of those molecules that molecular biologists are busily decoding. All of the DNA in an organism is referred to as the organism's **GENOME**.

GENES are DNA chains made up of hundreds or thousands of simple molecules. Each gene contains instructions for making another type of crucial molecule, a **PROTEIN**. Proteins include everything from hormones such as insulin—which regulates blood-sugar levels—to enzymes that help digest the food we eat. Some proteins turn other genes on and off, which can affect still other genes, creating complicated feedback loops.

Individual proteins are but tiny cogs in incredibly complex biological systems. Consider the immune system, in which thousands of genes and proteins work together to fight

infection, that when mutated causes human cancer.

Scientists at NemaPharm, in Cambridge, Mass., are studying the nematode *C. elegans* in a similar fashion. One gene linked to Alzheimer's disease. Researchers have found a human gene called presenilin, that is linked to the disease. The gene is also present in the worm. So NemaPharm scientists are disabling the worm's gene to figure out what it was doing and how it interacts with other genes. "We're looking for the precursors of the gene," explains Timothy J. Harris, research and development chief at Sequana Therapeutics Inc., who recently bought NemaPharm. And when the entire *C. elegans* genome is sequenced by early 1998, says Harris, the company "will be helping us in all our internal R&D programs at Sequana." That includes searching for the human

COMMENTARY

WHEN SCIENCE FICTION BECOMES SOCIAL REALITY

Of all the worrisome scenarios the genetic age has conjured, none is more deeply embedded in the popular psyche than the Frankenstein myth, with its moral that dire consequences await the scientist who dares to play God. For at least 20 years, scientists and biotech entrepreneurs have dismissed the fears of man-made life as science fiction, saying that whole-mammal cloning was impossible and would be until well into the 21st century.

But when Dolly, the cloned sheep, preened for her first photographs last week, the public learned that all sorts of genetic mischief, including mammal cloning, in fact is quite possible. "The symbolic significance is greater than the real significance," says Barbara A. Koenig, director of the program on Ge-

nomics, Ethics & Society at Stanford University.

Koenig believes Dolly's near-term impact could be significant for couples unable to bear children. Many couples have shown how far they will go to get genetically related offspring rather than adopt an unrelated child. Some seem willing to bear any expense and undergo the most difficult and risky medical procedures. Given that desperation, they may try to find a scientist willing to experiment with cloning.

AMBIGUOUS RESULTS. For ethicists, this will only add to a plate already full of issues that biotechnology has already raised. In the biotech century, those questions will become even more urgent. Perhaps the most fundamental questions right now are these: Exactly

what kind of medical knowledge can be gleaned from genetic information? And what can be done with it?

The truth is that most genetic tests are inconclusive. The diagnostic yield often shows no more than a slightly increased or decreased risk of one's getting a particular illness. A good example is breast cancer, which increases the risk of breast cancer. It was recently identified, marking an important scientific breakthrough.

One of Koenig's current projects is to study the ethical implications of genetic testing for women for mutations in their genes, which appear in some breast cancers. "My main fear is the medical and commercialization of diagnostic tests before we have enough information," she says. Finding muta-

is and antibodies (another type of protein) raders. The DNA in each of the body's cells the genetic information to produce a per- any given cell, only some of the genes are ; the rest are dormant. That's what makes say, different from a skin cell—different es are turned on in each.

s despair of understanding exactly how hu- 000 genes flip on and off in the amazing ance that leads to a human being. But covering the genes and proteins that un- pieces of this grand puzzle—so-called **PATHWAYS**. One famous pathway is the which cells turn the sugar glucose into rgy to run a marathon.

s can also go horribly wrong. A "g" in just one letter—an improp- link in the DNA chain—is a change in a single link of the n a gene can produce disease. anemia, for instance. Other e more complex. Heart dis- r, and Alzheimer's are

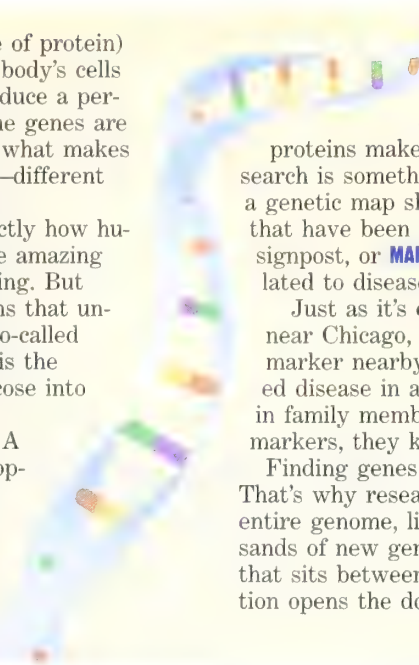
that code for conditions from asthma to obesity. new genomics also is having a more direct impact on agnosis and treatment of human disease. One tack, y companies like Human Genome Sciences Inc. (HGS) in ille, Md., is to pluck out all the genes that are actually on in a cell. Many of them are unknown. By figuring eir function, researchers may stumble across potential rugs and drug targets. HGS, for instance, is about to be- nical trials with previously unknown proteins that help unds or fight arthritis. And HGS partner SmithKline am has used the method to find promising new drugs t osteoporosis and other diseases.

nwhile, other companies are using technology to create re known as DNA arrays, or DNA chips. The basic idea

who aren't actually at high ast cancer to seek mastec- out proper medical justifica- mple.

n, controversy is raging in e an association of insur- ounced that applicants for e must disclose the results tic tests they've taken. The as also said that those re- fect premium costs and un- lections. There have been ernment intervention and igh-risk individuals who re- ake these tests to help doc- eir treatments will now

ome for Brit Stephen Frost, y must live with the unnerv- ge that he has a 50-50 veloping Huntington's best accuracy a test cur- rovide—but who says his oyer, an insurer, made life so r him that he had to quit his diagnosis became known.



due to mutations in several genes.

Much of the effort in genetics today is directed at finding these faulty genes —and then figuring out how their flawed proteins make biological pathways go awry. Aiding the search is something called a **GENETIC MAP**. Much like an atlas, a genetic map shows the locations of genes and fragments that have been identified. Each of these can be used as a signpost, or **MARKER**, to help identify genes that might be related to disease.

Just as it's easier to get to Evanston if you know it's near Chicago, it's easier to find a gene if you start from a marker nearby. When gene sleuths are tracking an inherited disease in a family, they look for markers present only in family members with the disease. When they find those markers, they know they are close to the genes.

Finding genes this way is costly and time-consuming. That's why researchers have begun blindly sequencing the entire genome, link by link. That way they will find thousands of new genes and all of the extra genetic information that sits between genes. This vast amount of new information opens the door to the most basic understanding of life.

By John Carey in Washington

is to put thousands of different pieces of DNA onto a silicon chip, each at a different spot. The chips are designed in such a way that they can find the genetic differences between, say, a cancer cell and its noncancerous precursor. Using this method, Darwin Molecular Corp. researchers in Bothell, Wash., have found some 500 genes that are altered when prostate cells turn cancerous. Those genes may hold the clues to better diagnostic tests or to biological processes that could be blocked to stop the cancer.

On a lower-tech level, the expansion of genetic knowledge also is aiding more traditional searches for human disease genes. In an approach called positional cloning, scientists first search for large families that suffer from an inherited disease. Then they look for bits of genetic material shared by the



It doesn't help that on the research side the consideration of the bioethical questions has been spotty and half-hearted for years. President Clinton's call for a new group to study the ethics of cloning could lead to consideration of other research projects—such as research with viable human embryos.

At the more practical implementation level, insurance companies are at the front line today of the ethics controversy over genetic testing. But employers are close behind them. As biology tells us more and more about who we are and how we work, employers will want to know which of their workers are carrying genetic time bombs.

The problem is the genetic information available so far is incomplete and difficult to interpret. But even when much better information is available, its misuse could pose a far greater threat than Frankenstein ever did.

By Joan O'C. Hamilton in San Francisco, with Julie Flynn in London



Inbox



Calendar



Journal

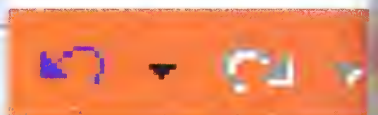


Tasks



	From	Subject
	Carrie Cameron	New Task
	Gretchen Almy Alert: Because of a Mr. Zagula, the pre now be presenting	New Task Request
	Carrie Cameron	AutoPreview

Contacts



Microsoft Office 97/now/
it's going to be real
to stay disorganized



Address Book



Plan a Meeting

	10 am	☺ Production Meeting (5th floor conf)
@wk.com	11 00	☺ "where we are headed" meeting (my office)
lil@wk.com	12 pm	
ttr@wk.com	1 00	☺ Lunch with client (TBD)
		Meeting with Lori Newman



y, really hard

People are inclined to neatly arrange, file, cross-reference and deploy strategic bits of information, like his-name, the guy who sent you the e-mail about the thing on Tuesday...or Wednesday. Well, here's news for the highly with-it and the chronically disorganized alike: the new Microsoft Outlook 97 organization manager. It's part of new Microsoft Office 97, and it's here to help you get organized (or, as they say, be, way more organized). Outlook puts your e-mail, electronic scheduling, to-do lists and contacts in a easy interface. It helps you do smart things, like preview the first three lines of your e-mails to quickly weed news from junk. And you can easily share info and move information; for instance, drag an e-mail contacts icon and a new contact file is automatically created for you. Now, that's functionality. Want to know more? Block out a little time to visit our Web site.

family members carrying the disease. When they find those "markers," they know the gene must be nearby.

Until recently, these searches have been hampered by a dearth of markers. But in the past few years, researchers have been mapping new markers by the thousands. "We used to say, 'We can't find the disease genes because there are not enough markers,'" says Howard Jacob of the Medical College of Wisconsin. "We fixed that. We used to say, 'It's too expensive.' And we fixed that."

That's why researchers are scouring the world, searching for families or isolated groups with rare inherited diseases. At the University of Washington, for instance, King is closing in on a gene that causes deafness in families from Costa Rica. Sequana scientists are using people from Tristan da Cunha to nab genes for asthma. A group of Germans who used to live in Russia have a unique gene for Alzheimer's. Such family lineages may soon help scientists find not just the genes for diseases caused by single defects, but for more complicated conditions like manic depression, high blood pressure, or heart disease. "We're making progress toward the real frontier of the more complex disorders," says Dr. Francis Collins, director of the Human Genome Project at the National Institutes of Health.

CANCER HELP? While all these disease-causing genes are rare, elucidating their mechanisms may have widespread usefulness. In the case of the breast cancer gene called BRCA-1, only a small portion of breast cancer victims actually inherit mutations. But the protein encoded by the gene may play a major role in noninherited forms of breast and ovarian cancer. Dr. Jeffrey Holt, professor of cell biology at Vanderbilt University in Nashville, Tenn., has shown that mice with ovarian cancer live much longer when given a normal version of the gene. Washington's King now wants to start a clinical trial in ovarian cancer patients to see whether the technique



Gene research promises new drugs, new treatments—and a far deeper understanding of human health and behavior

CRAIG VENTER'S TEAM COMPLETED THE FIRST DNA SEQUENCE OF A BACTERIUM

works in people. "This shows how we can use the gene to develop a therapy," she says.

Special Report THE BIOTECH CENTURY

In addition to new medicines, this information offers a new window into human history. "As people move around the world, their genes move with them," explains King. Geneticists have shown, for instance, that one breast-cancer mutation predates the destruction of the second temple of Israel. Another mutation moved from the Baltic to America to Israel in Jewish migrations.

Yet the explosion of genetic knowledge will reverberate far beyond new drugs or history. "The biological century will arrive on three fronts—medicine, environmental remediation, and agriculture," predicts TIGR's Venter.

Take pollution cleanups. New studies show that, during the course of evolution, nature has repeatedly added or excised clumps of genes from microorganisms, much like an engineer adding and deleting software routines while fine-tuning a computer. But if nature can do it, so can today's gene jockeys, creating a new field dubbed "genome engineering."

One bug now being sequenced, TIGR can withstand astonishing amounts of radiation. By inserting the string of genes coding for the uranium-gobbling pathway, scientists might fashion a cell that can clean up highly radioactive waste.

Venter and other visionaries dream of a greener, more productive economy created with the help of organisms capable of doing things from cleaning up waste to making methane—natural gas—inorganic fuel, solving our pollution problems. Genome engineering "isn't science fiction anymore," says Venter.

Indeed, the first steps are already being taken. Four years ago, Somerville, head of plant biology at the Carnegie Institution of Washington, slipped a gene for making plastic into *Arabidopsis*, a tiny mustard plant. The gene turned the plant into a biological plastics factory. Now, Monsanto Co. scientists are turning the concept into commercial reality. "We're expecting to have plants planted in thousands of acres by 2003," says Somerville.

Just as exciting is a recent recovery by Calgene scientists of a gene for the enzyme controlling the formation of cellulose in plants.

After 30 years of fruitless biochemical search for the enzyme, this is our first break in understanding how to control biological processes, Somerville explains. Genetically boosting the enzyme could make it possible to create trees with much higher proportions of cellulose—the plant kingdom's structural fiber—than the normal amounts of other cell wall components. These secondary components are what make the wood and papermaking process polluting and inefficient, scientists say, the engineered trees could help clean up a major industry. Beyond that, "there is a mad scramble in plant biology to find the most useful genetic sequences," says Somerville. "The world hasn't even seen the tip of the iceberg."

DOLLY'S DEBUT. Of course, the world did get a startling glimpse of a bold new future in agriculture with Ian Wilmut's Dolly. According to biological dogma, the feat was unlikely. The reason: All cells possess a full complement of genetic instructions and thus the basic instructions to create an entire organism. But during the delicate dance of development, when specialized cells become skin, or heart, or brain, all the genes needed for these new specialized functions are turned off. Most textbooks say they can't be turned back on again.

Wilmut and his team found a way. They extracted cells from the mammary glands of an adult sheep. They starved the cells. That apparently changed the complex protein scaffolding around the cells' DNA, which plays a key role in determining which genes are active or inactive. In essence, he coerced the specialized cells into believing they had returned to a stage in which all things are possible. Genes that had been turned off were primed to be turned on again.

From there, it was a simple matter of using some high-tech methods. Wilmut took the nuclei, and thus the genes, out of sheep oocytes. Then he placed each oocyte into one of the treated mammary gland cells. One electric shock caused the two cells to fuse, dumping the



Fun

sheep's genes into the egg. Another pulse prodded the oocyte to embark on the journey to make Dolly, the clone.

The process still has plenty of bugs. It took no less than 277 tries to make Dolly. "They killed a lot of embryos and made a lot of malformed sheep," says Pennsylvania's

Caplan.

DNA CHIPS. But the feat does help pave the way to barnyards filled with new types of live-

Special Report

THE BIOTECH CENTURY

stock. Companies like Alexion Pharmaceuticals Inc. in New Haven and PPL Therapeutics PLC in Scotland already have altered pig genes to make hearts, kidneys, and other organs that could be transplanted into humans, and they have engineered cows that make drugs in their milk. The cloning process will enable these so-called transgenic animals to be duplicated much faster than by traditional breeding. "It's not an overnight revolution, but there is significant potential for research and improvement of domestic animals," says Christopher Bidwell, an animal geneticist at Purdue University.

Some scientists believe that the biological century will usher in a new era in electronics as well. The lure of genes as the basis of computation is that the twisting helixes are jam-packed with information—millions of times more than on the densest microchip. True, performing a mathematical calculation might take an hour using DNA, compared with a fraction of a second for silicon, said Dan Boneh of Princeton University at a recent meeting on DNA computing. Chips can do only one thing at a time, compared with a DNA computer, which can theoretically do 100 million billion things at once. But DNA still has a long way to go before it can hope to challenge silicon.

Already, the world is racing headlong into the biotech century. And not even the scientists leading the way know where it all might lead. TIGR's Venter wonders whether we even possess the intellect to understand how humanity's 80,000 genes can work together in intricate harmony to produce a being that is capable of contemplating its own origins and destiny. But it is clear that as we enter the new millennium, biotechnology is about to weave its own threads into the great tapestry of human history.

By John Carey in Washington, Naomi Freundlich in New York, and Julia Flynn in Roslin, Scotland, with Neil Gross in New York

WANT TO LEARN MORE?

University of Pennsylvania bioethicist Arthur Caplan and BW's John Carey will answer questions about this Special Report on America Online in the Globe on Sunday, Mar. 2, at 9 p.m. EST.

FINDING A CURE IN DNA?

Biotech companies embrace projects to examine links between genes and disease

The British company PPL Therapeutics PLC, which won the rights to the controversial sheep-cloning technology, saw its stock jump with the arrival of Dolly on the world stage. But it is far from clear whether PPL will profit from its technology. Researchers say it is too early to know exactly what the commercial applications will be.

Some of the young companies embracing and driving the biotech revolution may, however, ultimately produce big rewards for their backers. These are the companies working in the field of genomics, delving into the mystery of the human genome and trying to pull out clues to what causes human disease. They have become darlings of Wall Street. Large pharmaceutical companies hungry for new drugs, like thia Robbins-Roth, a biotech industry consultant, estimates that the six largest genomics companies have deals worth up to \$1 billion with their bigger pharmaceutical brethren. They are locked in fierce competition to find genes involved

in diseases such as diabetes, cancer, Alzheimer's disease, schizophrenia, and other disorders.

"CHALLENGE." The challenge for these companies is to go beyond genotyping to so-called functional genomics—using a variety of laboratory techniques to identify how particular genes work and how they go wrong. "You're not doing the work you're not going to do," says Waleed Fayemi, an analyst with the investment firm Meridian Merchant Group in San Francisco. "You're not going to do it."

The race to find the genes is not an easy one. It's a tremendous challenge. David Galas, chief scientist at Darwin Molecular in Bothell, Wash. Doreen, the founder of a company in Paris, says his company has found 100 genes "and none are targets for drugs."

In the process of finding down those genes, places where drugs can be used to correct disorders—researchers are covering that ground. The technology is a crucial part of the puzzle. But some classical experiments with



At Exelixis, researchers put nine human disease genes into fruit flies; seven led to a visible change in the insects' appearance

A TECHNICIAN PERFORMS RESEARCH ON FRUIT FLY GENES AT EXELIXIS IN CAMBRIDGE, MASS.

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of fruit flies, yeast, and other simple organisms are also moving back to the forefront.

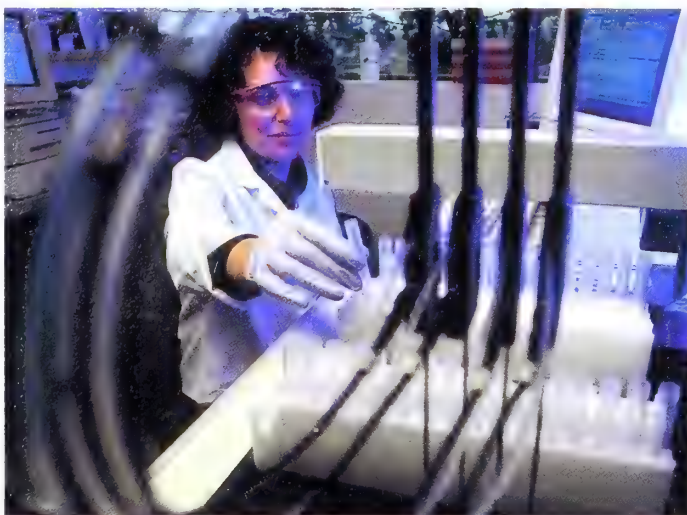
To identify which genes are worthy of further study, researchers try to determine which are related to human disease. In the past, this kind of experiment involved meticulously studying one biological pathway at a time. Now, companies such as Affymetrix in Santa Clara, Calif., InCyte in La Jolla, Calif., and others are designing so-called DNA chip arrays that let researchers look at thousands of genes simultaneously and pinpoint which ones are turned on or off in a disease.

The information coming out of these arrays is powerful, but it doesn't get at the biological underpinnings of disease. That's where simple organisms come in.

For example, Exelixis in Cambridge, Mass., is studying fruit flies. Scientists there have inserted nine human disease genes—including one for cancer and another for obesity—into fruit flies and found that seven of them lead to a visible change in the flies' appearance. By identifying other fruit fly genes that also produce this change, researchers can begin reconstructing biological pathways that lead to disease. The hope

is to find a key step in a disease pathway that can be interrupted by a drug.

Other companies use baker's yeast to determine gene function. Yeast genes have far more in common with human genes than side-by-side photographs of the two might suggest. With this in mind, Cadus Pharmaceutical Corp. in Tarrytown, N.Y., is using yeast to determine the function of some 400 genes that code for so-called receptors—molecules on the outside of cells where the cells receive messages. Many disorders are related to improper working of these receptors, making them good targets for drug development. On Feb. 27, the public company announced that it is signing a deal worth



Rising from sellers of research to providers of product is the trick

DNA SAMPLES FROM DIABETIC PATIENTS ARE REVIEWED BY A SEQUANA THERAPEUTICS SCIENTIST

lenium Pharmaceuticals, has experiments running in yeast, and mice. But he's excited about Millenium's work involving human disease via population studies and the growing integration of mammalian cells with microchips. "Given my choice, I'd rather rely on these," he says. He shares his worry with Genset's Cohen that there's no guarantee a treatment for a fly will be applicable to a human being.

PROMISES. Although companies may disagree about the best strategy for divining the workings of genes, they agree that the range of new technologies—from the fruit flies to computer arrays of DNA-studded computer chips—are the wave of the future. "A gene sequence doesn't do squat to cure patients," says Remi Barbier, chief financial officer at Exelixis.

Questions remain on whether genomics companies can move from sellers of research data to providers of product. In integrating technologies into their programs, they have taken the first step. "The outlook remains extremely promising," says Elizabeth Silverman, a functional genomics analyst at Punk, Ziegel & Kneill in New York. "The technology that's at the bottom of its curve in terms of contribution to drug discovery and development."

By Naomi Freundlich in New York

THE SEARCH FOR FUNCTION

Much of the promising work on commercial applications of genetics is occurring at small companies. Some are already publicly traded; others might help their larger partners strike it rich.

AFFYMETRIX* SANTA CLARA, CALIF. DNA chips. Deals with Hoffmann-La Roche, Merck, and Glaxo.

CADUS* TARRYTOWN, N.Y. Studying yeast. Deals with SmithKline Beecham, Bristol-Myers Squibb, and Solvay.

EXELIXIS CAMBRIDGE, MASS. Fruit flies. Private co. raised \$16 million, IPO expected next year. No announced deals yet.

GENSET* PARIS Strength is in finding regulatory regions for genes. Deals with Synthelabo, Johnson & Johnson.

*PUBLICLY TRADED

HUMAN GENOME SCIENCES* ROCKVILLE, MD. Strong sequencing company. Deals with SKB and Merck DCA.

INCYTE* PALO ALTO, CALIF. Combines huge DNA database with chips. Deals with Pfizer, Upjohn, and 8 others.

MILLENNIUM* CAMBRIDGE, MASS. Gene hunters plus strong functional capabilities. Deals with Hoffmann-La Roche, etc.

NEMAPHARM CAMBRIDGE, MASS. Studying nematodes, owned by Sequana. Deal with Glaxo.

DATA: BW

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Schwab Is 'Fighting On Three Fronts'

As rivals invade its turf, the broker is inventing new ways to retain clients

On Feb. 5, David S. Pottruck, president of Charles Schwab & Co., nearly fell off his Stairmaster when he read that rivals Morgan Stanley & Co. and Dean Witter, Discover & Co. planned to merge. But after regaining his stride, Pottruck dismissed any threat from the unexpected union. "A grizzly bear and a koala bear just made it in the zoo," he quips. "Why should I be losing sleep over that?"

Perhaps he's not worried about that particular combo. But it's only the latest in a string of moves by big Wall Street firms and others to reshape themselves to court the small investors whom Schwab has so successfully romanced. Merrill Lynch, Smith Barney, Prudential Securities, and even NationsBank have all launched their own mutual-fund "supermarkets" to go head-to-head with Schwab's winning One-Source program. Merrill Lynch has also created an aggressive pricing structure to lower its fees and commissions. Fidelity Investments and Salomon Brothers Inc. have teamed up to offer Fidelity's customers Salomon's initial public offerings and research. And Internet brokers such as E*TRADE Group Inc. offer trading to the cost-conscious investors at half Schwab's commission. "Schwab is like an army fighting on three fronts," says Christos M. Cotsakos, E*TRADE's president and CEO, noting that the largest influx of new accounts at E*TRADE comes at Schwab's expense.

These maneuvers, coupled with an avalanche

of aggressive ad campaigns and the sizzling market, make rivals appear to be closing in on Schwab. Michael A. Flanagan, a securities analyst at Financial Service Analytics Inc. in Philadelphia, says that from 1991 to 1994, Schwab's compounded annual revenues grew more than twice as fast as the industry average. But in 1995-96, Schwab barely edged out rivals—with 30% growth, compared with an industry average of 28%. "For the past 10 years, Schwab has had most of the arrows in its quiver," says Flanagan. "It now finds its competitors very well-armed."

Stiff competition is nothing

new to the San Francisco discount broker. "Competition is the source of all innovation," says Chairman and CEO Charles R. Schwab. So are industry shake-ups. In 1974, Schwab sent ripples through the brokerage Establishment by being first to discount commissions. Then Schwab transformed the way mutual funds are sold—with its 1984 launch of a supermarket that lets investors choose among a wide range of funds and commission rates.

Now, as the company sets its sights on the Internet and on offering customers financial advice, Schwab believes it's on the cusp of revolution No. 3.

TEAM PLAYER

President Pottruck sees Schwab possibly linking up with "a firm like Goldman"

WHAT SCHWAB IS DOING TO KEEP ITS EDGE

- ▶ Developing self-help products for customers' use in making investment decisions.
- ▶ Introducing a broad range of Internet-based transaction and information services such as Market Buzz
- ▶ Streamlining customer service to give investors more personal attention
- ▶ Creating a system to identify those customers who are in need of assistance
- ▶ Simplifying its mutual-fund selection by offering "funds of funds"
- ▶ Boosting its ad budget to include the broadcast-TV networks



remains sleek, [the changes] will give the room for our own investment and expansion says Schwab.

ENTHUSE. So far, Schwab has done pretty well. Brokerage has expanded earnings by 36% in each of the past five years. Customer assets, aided by a rising stock market and increased control that investors exert over their retirement funds, have more than doubled since 1994, to \$1.1 billion. Even Schwab's 10-year-old Internet trading program has already captured \$9 billion in client assets. And Schwab's stock performance brokerage in the Standard & Poor's 500-stock index, up 275%, vs. 160% for the industry group since the stock market bottomed out in 1994. "We really don't want to be asking what full-service brokers are going to do for Schwab," says Richard Weiss, a securities analyst at Goldman, Sachs & Co.

But Schwab will still be asking what Schwab will do as full-service brokers."

The discounters are spending heavily on computer programs to guide customers through the labyrinth of investment options. In February, Schwab launched Market Buzz, an information service on its Website that offers market news, data, and research. Perhaps most important, Schwab is beefing up the back-office support and investment services it offers to its network of 5,000 independent investment advisers. Those advisers' clients account for \$72.9 billion, or nearly one-third, of Schwab assets. The company wants to increase its army of advisers, who are guaranteed at least one referral a month.

These days, Schwab's clients could use the help. A striking 50% of the brokerage's new customers today have never invested before—compared with less than 5% in 1987. "Our current push is to make sure that our customers who need help get it and that our customers who don't,



NONPLUSSED
Chairman Schwab says: "Competition is the source of all innovation"

don't get it—and don't have to pay for it," explains Pottruck.

To get that message out, Schwab has boosted its ad budget. In 1996, the company spent \$84 million on ads, up from \$53 million in 1995.

This year promises to be even costlier, with the introduction of splashy campaigns on broadcast networks in addition to the cable channels.

Schwab is also retooling customer service, importing fresh ideas from outside the financial-services industry. For instance, Schwab has studied fast-food companies such as McDonald's Corp. to see how their management of franchises might help Schwab's interaction with branch offices. Pottruck has also met with the CEOs of Hewlett-Packard Co. and Home Depot Inc. to learn how they deal with customers. As a result, in part, the discounter recently consolidated its phone centers so that inquiries or complaints from customers at certain branches are answered by the same people each time. In addition, these phone banks free up branch employees to devote more time to assisting customers who need investment help.

IPO OPTION. Schwab is particularly interested in identifying customers who might defect to a full-service broker because they aren't getting the attention they need. By the end of 1997, the company hopes to have a system in place that will flag accounts in which there has been a fall-off in transactions or an accumulation of cash in money-market accounts. Schwab would then contact these investors to see if they need more assistance.

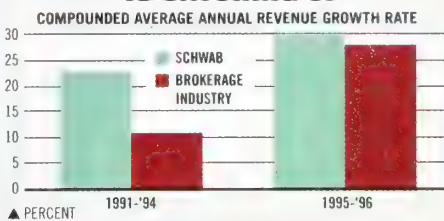
Improved service is only part of the

SCHWAB'S PHENOMENAL ASSET GROWTH

	IN BILLIONS OF DOLLARS		
	1994	1995	1996
TOTAL CLIENT ASSETS	\$122.6	\$181.7	\$253.2
INVESTMENT MANAGER CLIENT ASSETS	32.6	50.6	72.9
MUTUAL-FUND ASSETS	31.0	50.0	74.6
MONEY MARKET FUNDS	22.1	29.7	39.4

DATA: CHARLES SCHWAB & CO.

THE COMPETITION IS CATCHING UP



DATA: FINANCIAL SERVICE ANALYTICS INC.

strategy. Schwab is also trying to create a broader menu of products. To simplify mutual-fund selection, Schwab has rolled out "funds of funds"—giving investors an array of funds in one package. It's also testing a number of new products, including a futures trading program. Of course, not all the initiatives meet with customer approval. Trials for mortgages and credit cards, for instance, have been disappointing so Schwab won't be pushing on those fronts.

In addition, Schwab is talking to investment banks, notably Goldman Sachs, about forming an alliance that would give its retail clients the chance to invest in underwritings such as IPOs. Right now, Schwab's customers have to wait until a hot stock starts trading rather than buy it on the offering—usually at a lower price. Pottruck calls it "quite possible that we would have an alliance with a firm like Goldman." Goldman Sachs declined to comment.

Of course, none of this means Schwab is on its way to replacing giants such as Merrill Lynch. Discounters and mutual-fund companies combined still only account for a quarter of the retail brokerage market. Moreover, some consultants predict that investors could flee discount brokerages when the current market turns bearish. "You'll see more people shifting back to full-service houses because they want hand-holding in a crisis," says Navtej S. Nandra, a partner in the financial-services group at Booz Allen & Hamilton Inc. Not if Schwab gets its way. Its game plan is to make its products, services, and investment advice so appealing that customers will have no reason to run.

*By Linda Himmelstein
in San Francisco*

CORPORATE FINANCE

MONEY, MONEY EVERYWHERE

Thanks to a bull market, capital costs are at a 40-year low

Today is heaven for corporations looking to raise money—whether an Internet startup doing an initial public offering or an old-line manufacturer issuing bonds to finance a new factory. According to a study by the University of Pennsylvania's Albert Ando and two other economists published in January by the National Bureau of Economic Research, the average cost of equity and debt is at or near its lowest point of the last 40 years. "Nothing looks bad," says Jean Helwege, a senior economist at the Federal Reserve Bank of New York. "I can't see a single market where you'd say, 'Oh, God, it's a terrible place to raise funds.'"

The cost of capital can be critical to whether an economy succeeds or fails. Simply speaking, it's how much companies have to pay for the use of money.

IPO BOOM. In the debt market, the cost of capital is the rate of interest, adjusted for inflation. In the equity market, it's similar—the profit that a company is expected to produce on each dollar invested in its stock. That's the earnings-price ratio, the flip side of the better known price-earnings ratio. Thanks to the bull market, the price-earnings ratio has soared and its inverse, the earnings-price ratio, has plummeted. For the Standard & Poor's 500-stock index, it fell by nearly 2 percentage points, from 8% in the late 1980s, to 6.1% in 1995-96 (chart). Today it's under 5%.



Of course, cheap capital is worthless if companies decide there's nothing to spend it on. That's the situation in Japan, where some real interest rates are actually negative and earnings-price ratios are microscopic, yet investment

remains sluggish. In the U.S., by contrast, lots of companies are taking advantage of the financial market's strength to raise money inexpensively. Securities Data Co., a unit of Thorburn Financial Services, calculates that the amount of new debt issued in 1996 set a record of \$300 billion, while the amount of new stock hit a record \$115 billion. Much of the stock issued last year was in initial public offerings in technology. "The last 18 months have simply been the best time for technology companies to raise capital," says James W. Breyer,

managing partner of Accel Partners, a San Francisco venture-capital firm. As for debt, companies such as Walt Disney, J.C. Penney, and IBM are breaking new ground by issuing 100-year bonds. Others are refinancing existing debt at lower rates. Toronto is paying 8% on most of its short-term debt, down from 12% just so before a series of refinancings over the last two years, says Gerald T. Knight, chief

But with profits strong, companies don't need much financing

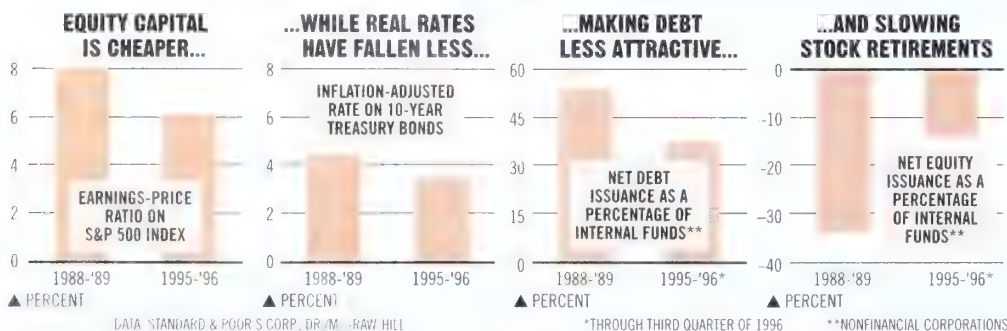
the Bloomington (Minn.) lawnmower maker.

That's not to say that the rate America on the whole is a binge of selling stock bonds. Most companies don't need them. With profits so strong, they can finance their investments through retained earnings. That degree of self-reliance diminishes the impact of cheap capital on corporate behavior.

William Lewis, treasurer in charge of investment at Sey & Co.'s M&A Global Institute in Washington, D.C.,

While both equity and debt capital have gotten cheaper, the biggest drop has been on the equity side, back to 1988-89 levels. The economy was in a similar point in the business cycle, measured by the unemployment rate. But

How the Cost of Capital Has Declined



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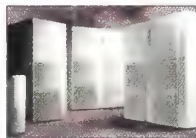
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equity was about 3.6 percentage points more costly than debt. That's gauged by comparing the earnings-price ratio of the S&P 500 at about 8% with the real interest rate on 10-year Treasury bonds at about 4.4% (charts). The gap has since narrowed to about 2.4 percentage points.

The result is that CFOs are leaning much more toward equity than they did in the late 1980s. True, a number of companies are buying back their shares in hope of boosting stock prices—as Philip Morris Cos. is doing under a three-year, \$8 billion buyback announced Feb. 26. The wave of mergers, too, is tending to extinguish equity as companies disappear.

Today's cheaper funds haven't caused companies to binge on capital investments

But these trends toward reducing equity were much stronger in the late 1980s, when mergers and leveraged buyouts wiped out huge swaths of equity. Today, companies are still retiring equity on the whole—but they are doing so at a much slower pace than in the 1980s.

HURDLE RATES. Today's lower cost of capital is stimulating corporate investment—but only to a degree. In theory, the availability of cheaper capital should encourage companies to lower the "hurdle rate" that they use to judge whether projects are worth investing in. In practice, though, hurdle rates don't change as quickly as prices of stocks and bonds.

Toro is typical. When the company found itself with excess cash in 1995 and 1996, it used the money to repurchase shares because it couldn't find any appropriate acquisitions or internal projects that met its pre-established target for return on investment. "We don't make major adjustments within a three-year cycle," says Toro's Knight. Likewise, Pitney Bowes Inc. is buying back 9.2 million shares over the next two years because executives don't see any "must" investments that aren't already funded.

Still, for fast-growing companies that do need to raise money—and there are thousands of them—today's lower cost of capital is manna from above.

By Peter Coy in New York, with bureau reports

INSURANCE

DOES YOUR COMPUTER NEED MILLENNIUM COVERAGE?

The 2000 glitch could be costly—so insurers are leaping in

It was bound to happen. Growing anxiety over the year 2000 computer bug has spurred insurance companies and brokers to try to capitalize on what could be a potentially large and lucrative market: millennium insurance.

The draw? Costly business disruptions and lawsuits may occur despite the \$300 billion to \$600 billion that Gartner Group Inc., a technology research firm, estimates is being spent worldwide to reprogram computers to read 2000. Those disruptions and ensuing litigation could cost \$1 trillion, figuring average legal costs and a 5% failure rate, says Steven L. Hock, managing partner for operations at the San Francisco law firm Thelen, Marrin, Johnson & Bridges.

Several insurers and brokers have already unveiled their plans—and some of them cost a pretty penny. American International Group Inc., with Minet Inc., a broker owned by St. Paul Cos., expects to write its first policy in six weeks. For \$100 million of coverage—the initial amount available—the insured would pay \$60 million to \$80 million to AIG. If losses are higher than what the insured has paid in, AIG will pay the difference. If losses are lower or nonexistent, AIG will return all but 10% to 15% of the total premium paid. "It looks attractive, but I haven't made any decision," says Christer Magnusson, head of risk management at Sweden Post Group, which runs a giant banking system and delivers the mail in Sweden. Insurance broker Marsh & McLennan Inc. is offering a more typical and cheaper insurance plan in which the likely premium paid would be up to \$5 million for up to \$200 million of coverage,

says William A. Malloy, a managing director at the broker. Possible writers include Zurich-American, Lloyd's of London, and Reliance National. Potentially there will be hundreds of millions of dollars of premium income, says Mark L. Owens, executive president at Reliance National Insurance Co. Eric M. Kamen, a managing director at Morgan Stanley & Co., studied the policy. "The product is enough appeal that we are going to low up and meet with them."

Despite the high risk of underwriting, other insurers are sure to jump into the 2000 arena. Marr T. Haack, president of the technology risk group at USF&G Insurance, says the company is likely to offer a specific millennium product or enhancements to existing coverage.

With existing policies not covering losses entirely or at all, special millennium coverage may be a welcome salve for companies that have done little job retooling their systems. "We definitely consider it. We are going through the assessment process, it's got to make sense from a benefit point of view," says Devlin, director of Citi's year 2000 Enterprise program. Citi hasn't yet studied specific insurance plans, but its legal and risk management



COUNTDOWN

Some early big have unveiled plans to cover part a possible \$1 trillion in losses

departments evaluating the. Many companies—and even insurance companies—will forgo in fix their systems, and take their. Says Reliance's Owens: "We'd be to self-insure, although we have ized the decision." But as the 21st century approaches, more and more may decide it's better to share with insurance companies.

By Alison Rea in New

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Finance

MUTUAL FUNDS

RUSHING TO RUSSIA

Money managers are chasing billions held in small stashes

Skipping lunch, Sergei V. Matrenok hops on the Moscow metro to Credit Suisse Investment Funds' new sales office on the ground floor of a Stalin-era skyscraper on Kudrinskaya Square. Under crystal chandeliers and gilded ceilings that Credit Suisse spent nearly \$1 million to renovate, 12 clerks sit at computers taking orders. In half an hour, Matrenok, 36, is on his way back to his desk at Lipetsk Bank, a certificate for \$4,000 worth of shares in the Swiss bank's Large-Cap Equity Fund in his pocket. Says Matrenok: "If you want to make money, you have to invest in the stock market."

That's music to the ears of the managers of some of the world's biggest mutual funds. With Moscow's stock market

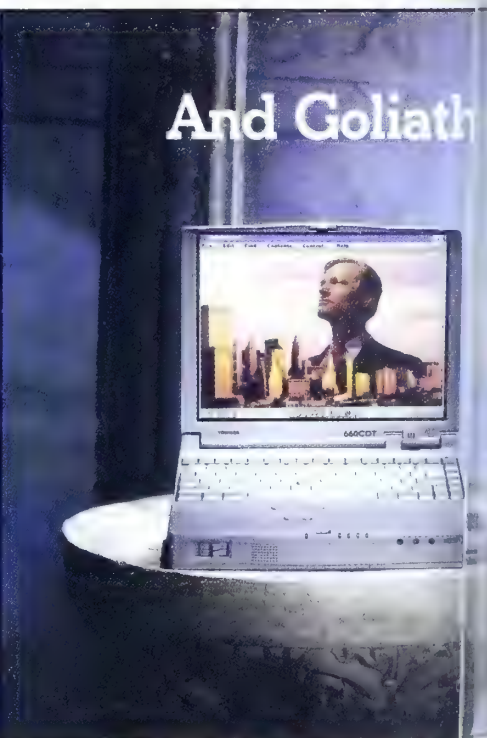


PLUSH DIGS: Credit Suisse spent \$1 million to renovate its Moscow offices

up 60% since Jan. 1, and individuals hoarding an estimated \$30 billion in hard currencies, such U.S. money managers as Franklin/Templeton and Pioneer are competing with Credit Suisse and local financial groups to sell Russian equity and bond funds to small investors across the country. "There's no reason why we can't duplicate in Russia what we have in the United States," says J. Mark Mo-

bis, president of the New York Exchange-listed Templeton Russia

The equity boom of 1997 is being fueled by foreign money pouring into Russia on the back of the Moscow stock market's 156% surge last year. Although more local investors are warming to stocks, foreigners still account for at least 90% of trading. Although the Russian industry is still unpro-



Politics are unstable. Many overseas investors say they no longer view the country as a mess. They are at the economy. Profits are falling, and profits are improving. Foreigners' confidence has also been bolstered by the World International Financial Corp.'s inclusion of Russia in its widely

index of emerging equity markets. Money managers say that many global equity funds.

ION. At least 41 equity and debt funds aimed at investors in the U.S. and other countries now have more than \$1 billion in assets, estimates Ian M. ... editor of *Micropal Emerging Fund Monitor*. For the most part, foreign—and domestic—investors are moving into liquid blue-chip issues, such as Rostelekom, a big long-distance phone company, and such rich energy producers as Lukoil, Gazprom, and the utility Unified Energy System. However, some foreigners might flee if a new political crisis breaks out, analysts note that Russia's low

MOSCOW'S NEW MUTUAL FUNDS

FOR RUSSIANS...		...AND FOREIGNERS*	
FUND	ASSETS (MILLIONS)	FUND	ASSETS (MILLIONS)
CREDIT SUISSE RUBLE	\$5.2	FIRST NIS REGIONAL	\$193
CREDIT SUISSE HARD CURRENCY	5.0	MORGAN STANLEY RUSSIA**	141
CREDIT SUISSE LARGE-CAP EQUITY	0.3	REGENT RUSSIAN DEBT	130
PIONEER FIRST VOUCHER	0.6	TEMPLETON RUSSIA**	113
PALLADA GOVT. SECURITIES	0.6	FLEMING RUSSIA	107
ILYA MURAMETS	0.1	REGENT WHITE TIGER	104

*Largest of 40 international funds

**U.S.-listed fund

SOURCE: MICROPAL EMERGING MARKET FUND MONITOR, BLOOMBERG FINANCIAL MARKETS, BUSINESS WEEK

foreign debt and ample reserves of hard currencies should cushion the blow of any market retreat on the economy.

Taking advantage of the upbeat market mood, the first stock fund aimed at local investors, Credit Suisse's Large-Cap Equity, opened Jan. 31. It has collected some \$300,000. Russians have invested \$12 million in mutual funds since Nov. 12, when Boston's Pioneer Group opened Russia's first mutual fund, Pioneer First Voucher, to invest in government debt. That even \$12 million has flowed in is impressive, given that nearly 30 million Russians lost their nest eggs in pyramid-style investment scams in 1994 and 1995. With memories of the scams still fresh, "we need to

educate the public that this is an entirely new type of instrument that is open and transparent and strictly regulated," says Tim Frost, director of Pioneer Group's Russian financial services activities.

To prevent new pyramid schemes, the government has issued more than 20 regulations for fund managers. Companies must go through a rigorous

registration process, and only 15 have received licenses so far. But "there are many more people trying to create scams than control them," concedes Dmitri V. Vasilyev, chairman of the Federal Securities Commission.

Over the next few months, several more blue-chip equity funds are expected to join Credit Suisse's offering. If the market keeps its momentum, money managers are hoping more individuals will move some of their cash into equity funds. If consumers take to stocks with the enthusiasm that the current crop of fund managers predicts, there's bound to be more big names selling funds on the streets of Moscow before long.

By Patricia Kranz in Moscow

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Built-in slimline SelectBay allows you to use either a CD-ROM, floppy disk drive or an optional second battery



BY GENE G. MARCIAL

A SUITOR FOR JOHN ALDEN?

Despite the frisky Dow, many stocks have yet to join the grand bull market. One laggard is John Alden Financial (JA), a group-life and -health insurer whose shares have languished between 16 and 18 this year, down from 21 in September. That frustrates stockholders but delights the money pros who have been buying lately.

They reckon that, as insurers consolidate, John Alden is in line for a bid from a biggie. These money managers put the takeover value of John Alden at 25 to 27 a share, based on the valuation of other industry buys.

The most recent major deal was American General's Feb. 13 announcement that it would acquire USLIFE, previously tagged as a target in this column (BW—Jan. 20). The pros now buying into John Alden are the same bunch that sniffed out USLIFE. They argue that, with John Alden's stock trading near its 52-week low of 16%, the company has become much more vulnerable. According to one trader, investor Richard Rainwater is a big John Alden stakeholder.

In December, John Alden's board authorized a poison pill that—in the event of a takeover—guarantees to shareholders one preferred-share purchase right for every common share they hold. It's possible, however, that

"the buyout we expect will be a friendly deal," says one hedge-fund manager.

John Alden's chief market is South Florida, where it has formed a health-maintenance organization embracing 3,800 doctors and 22 hospitals. John Alden has been downsizing lately. In December, the company

signed an accord to sell its annuity business to SunAmerica for about \$240 million. The sale, says Standard & Poor's analyst Brendan McGovern, enables John Alden to use part of the



DATA: BLOOMBERG FINANCIAL MARKETS

proceeds to finance the growth of its health-care unit. Analysts expect Alden to post earnings of \$1.29 a share this year and \$1.35 next.

VIVID: MORE GEAR TO DETECT BOMBS

On Monday, Feb. 24—the day after a gunman opened fire atop New York's Empire State Building—shares of Vivid Technologies (VVID) jumped nearly 3 points, to a new high of 24%. Why? Vivid is a big maker of automated inspection systems for airline luggage that can detect plastic, other explosives, drugs, and currency.

Vivid's stock had been red-hot even before the Empire State tragedy. It jumped from 10 in mid-December to 20, breaking analysts' price targets. So when the stock flew to 24 that Monday, some analysts downgraded it from a buy to a hold, based purely on the fast rise. That pulled the stock down—back to 21.

"The stock has become even more of a buy at this level," says investment manager Robin Kerr

of Axe-Houghton Associates in Rye Brook, N.Y. "Let's face it," she says. "Weapon-detection systems will become more a part of our lives."

Kerr and analysts note that on U.S. domestic flights and most world airports' international flights, none of the baggage is subjected to screening for explosive material. The X-ray system that currently scans carry-on baggage isn't capable, she says, of detecting explosives—only weapons.

Vivid's gear automatically identifies and isolates explosives in luggage that passengers check in at airport counters. Vivid's systems are in use at 75% of airports that deploy integrated automated-detection devices, including London's Heathrow and Gatwick and Paris' Charles de Gaulle. No such systems are in use in the U.S.

"Vivid has sold nearly 150 systems for installation in airports throughout Europe and in Asia," says Glenn Hanus, an analyst at Needham & Co., a New York investment firm. By September, Vivid expects to have 200 of its

devices installed. Order backlogs v \$24 million as of the end of 1996.

Kerr figures that Vivid will m 60¢ a share this year and about \$ 1998, vs. last year's 15¢. Those mates don't include the potent huge U.S. market or future sale Vivid's hand-carry detection gear. believes the stock will hit 30 this

NORDIC MONEYBACK CALL ON ALUMAX

It seems that Alumax (AMX), once before the quarry of a suitor, is destined to be ever pursued by ardent wooers until finally won. This time around Alumax, the nation's third-largest minium maker, is said to be talking party it likes: Norsk Hydro, Norway's largest listed industrial company.

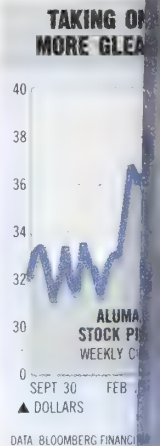
"They are in serious discussions the buyout price for Alumax looks to be in the 55-a-share area," says investment banker who isn't part of the current talks but has come among people in the know.

In February, 1996, Alumax rejected an offer from Kaiser Aluminum about 45 a share.

Last year, it posted revenues of \$3.2 billion and earnings of \$5.19 a share. Alumax, a maker of aluminum ingots and aluminum and steel products for the construction and transport trades, operates more than 100 plants and other facilities in 30 states, Canada, and Europe.

Norsk had revenues of \$12.6 billion last year. Its three principal businesses in North America are aluminum extrusion (a way of processing aluminum), fertilizer, and offshore oil and gas interests in Newfoundland. It made \$1.1 billion in 1996, or \$4.93 a share.

One stakeholder, Tony Hirschman Brandywine Asset Management, says that, even at 55, Alumax is a bargain for any suitor. Based on fundamentals alone, Alumax is worth 50 a share, says Alumax spokesman Dan Hirschman. Norsk CFO Leif Hirschman says the company doesn't comment on its acquisition plans.



DATA: BLOOMBERG FINANCIAL MARKETS

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1996

4050 - Best Buy / Gold Medal
1080 - Best Buy / Silver Medal
2050 - Best Buy / Silver Medal
3050 - Best Buy / Silver Medal
6000 - Best Buy / Bronze Medal

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EP 2050 - Pick of the Year
EP 2152 - Pick of the Year
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EP 2152 - Recommended*
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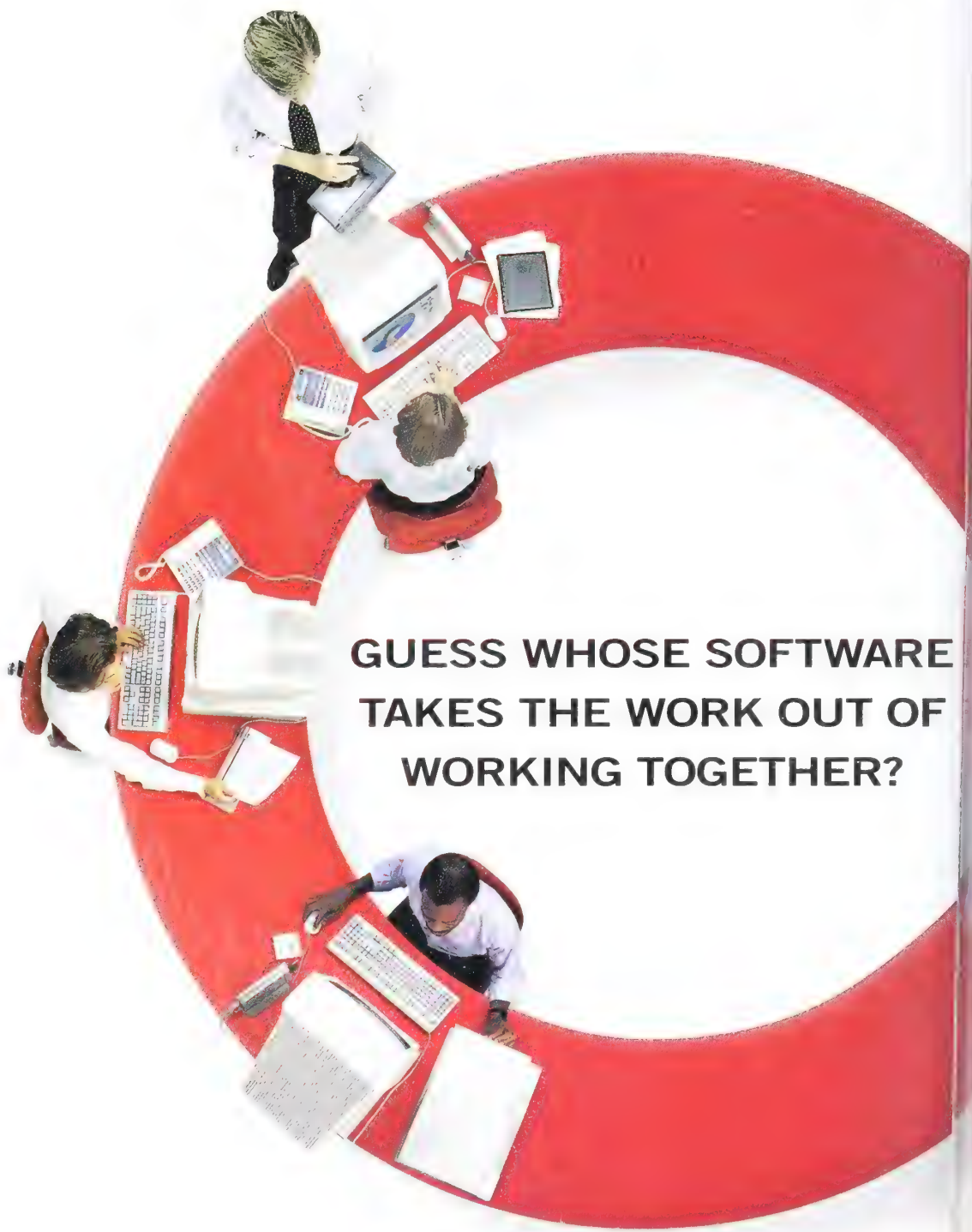
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MODEMS

MY MODEM CAN LICK YOUR MODEM

In the battle of the speed demons, consumers are likely to win

The modem wars are here in earnest. The first big salvo came on Feb. 26 when a consortium of companies that sell 70% of the modems worldwide banded together to back a standard for the next-generation modem—one that will let computers talk to each other at a zippy 56,000 bits per second, about twice today's speed. In grandstanding fashion, the consortium, dubbed Open 56K Forum, timed its announcement to preempt the launch of U.S. Robotics

the '70s. But maybe not. All the companies are promising buyers free upgrades to the eventual standard, expected next year. When a compromise is reached, they will alter their modems for free to work with all the others. For most of the new modems, customers will be able to download a piece of software to complete the upgrade. The result: For once, the big winners are likely to be consumers—if they can get over their initial confusion about which modem to buy.



A LA MODEM: Corp.'s speedy new modem. Price wars are already raging for new models. Well, not for long. Later that day, 3Com Corp. made a \$6.6 billion stock bid to buy U.S. Robotics. That gives the modem maker a potent backer and hands 3Com a strong brand name in the consumer market. The Open 56K group had hoped to steal the thunder from U.S. Robotics' deal with America Online Inc. (AOL), which was scheduled to start turning on telephone access numbers on Feb. 27 to give subscribers log-on access at the faster speed. The deal alarmed consortium members because AOL customers can only use modems from U.S. Robotics, which controls a quarter of the market. Modems from the Open 56K Forum group—available in March—can't talk to those of U.S. Robotics.

On the surface, it looks like a classic battle over standards, reminiscent of the Beta-VHS fight for the VCR market in

Sales of the new modems are expected to be huge, driven by the Internet boom and Net surfers' frustration with the long wait to download Web pages. "There's such a strong pent-up demand for 56-kilobit technology," says Dwight W. Decker, president of Rockwell Semiconductor Systems in Newport Beach, Calif. "It's not clear that there will be a big winner or loser."

PRICE WAR. It was beginning to look as if U.S. Robotics had the market sewn up by snagging the endorsement of such companies as AOL, Prodigy, and CompuServe. As late as last fall, U.S. Robotics was promising to have its new, so-called x2 modems on the market by January. Rockwell was thought to be six to nine months behind. But U.S. Robotics blew much of its head start, and Rockwell hit every milestone on its calendar. U.S. Robotics postponed its launch to early February—and missed that date as well, plunging its stock 7%, to 56%. U.S. Robotics' shares have since recovered to

61½—but are still well below the 52-week high of 105%.

The competition will be good for the consumer. Instead of charging the usual premium for the jump to next-generation technology, modem makers are in for a straight to a price war—even if they have their modems on the market. Most of the Open 56K group will have modems out in March. The No. 2 modem maker, Hayes Microcomputer Products Inc. in Norcross, Ga., registers more than 40,000 people for a deal offered on the company's Web page: Its high-speed modems are introduced next month, customers can get one for \$99 by sending in any brand modem—even a decade-old 1,200-bps model. Hayes has been collecting dust on the U.S. Robotics, with the only modem in the market, hasn't joined the price war yet. It's selling the superfast modem for 70% more than current models—\$199 for a version that slides into ab-

AND IN THIS CORNER...

U.S. ROBOTICS has lined up the most Internet service providers behind its 56-kbs modem technology, including America Online, Prodigy, MCI, and CompuServe. Demand from users of such services is fueling the boom in modem sales.

ROCKWELL AND LUCENT have 70% of the companies that sell modems and personal computers, including Compaq, Hewlett-Packard, and Toshiba, as well as modem makers Hayes, Xircom, and Zoom.

puter, or \$239 for the external model.

If the two sides don't strike a compromise soon, online companies could come casualties in the modem war. "If customers start asking for both kinds of connections, they'll have to offer both," says Robert A. Rango, general manager of Lucent Technologies Inc.'s modem business in Huntington Beach, Calif. "What else can they do? Watch their subscribers defect to another provider?"

It's already hard to make money selling unlimited online access for \$5 a month. Now, the service providers have to upgrade their equipment to handle the higher modem speeds and install separate equipment and phone lines for the rival technologies. And there's really no chance that they will be able to recoup their investment by charging more. In the war over modem standards, consumers may be the only winners.

By Larry Armstrong in Los Angeles
with Peter Elstrom in Chicago

COMMENTARY

By Keith H. Hammonds

LET THE MARKET FOR DOCTORS HEAL ITSELF

Ah, good intentions. Three decades ago, when the nation appeared to face a paucity of physicians, the federal government stepped in with a solution: pay hospitals for each medical resident they trained. It was, arguably, an enlightened notion. Washington would guarantee on-the-job medical education at a time when insurers, hospitals, or doctors had little direct economic interest in funding residencies themselves. This was nascent industrial policy, a venture that tied together the interests of health care and the nation.

Like any subsidy worth its salt, though, this one went screwy. In 1983, the Health Care Financing Administration (HCFA), which oversees both Medicare and the resident incentives, sought to ensure medical care for the poor by adding a premium—based on each hospital's number of residents—to the amount it reimbursed for care of Medicare patients. Hospitals with more residents, it reasoned, would tend to care for more poor people.

SLASH SUBSIDIES. Instead, the indirect payment turned out to be a strikingly inefficient way to finance indigent care. Added to the original incentive, moreover, it created a horrifically expensive means of training doctors. In New York, the HCFA currently pays hospitals an average of \$87,000 annually for each of the residents who, just out of med school, typically make \$40,000. The HCFA faces a training tab this year of more than \$7 billion.

There is a simple way out of this mess: Get the government out of the physician labor market. Reduce sharply the subsidy per resident, forcing hospitals to pay trainees' salaries and so discouraging them from taking on as many residents as they have lockers for. Compensate hospitals for indigent care, but do so on a per-patient basis instead of

funding a pool of physicians who may or may not help the poor.

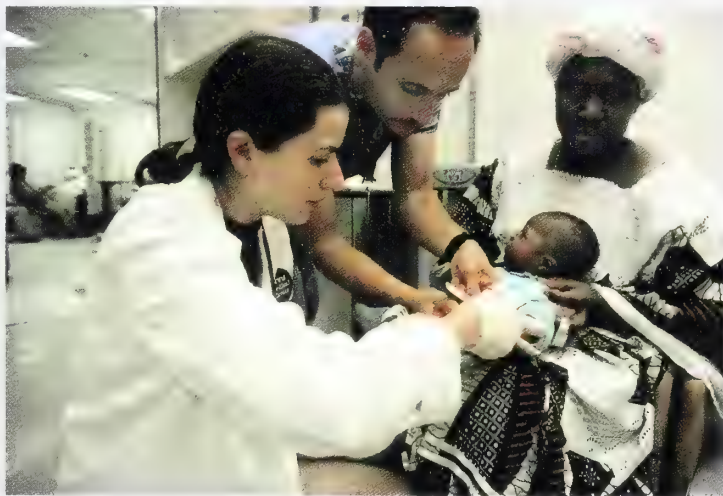
This isn't the route the government chose on Feb. 17. Borrowing a trick from the old Agriculture Dept. playbook, it's rewarding hospitals to let their training fields lie fallow. The HCFA experimentally will pay 42 New York medical centers \$400 million over six years to eliminate as many

help cover research and teaching overhead. And President Clinton's 1998 budget calls for a cap on the number of residents and a reduction in the subsidies hospitals receive.

So, fine—the world is changing, and hospitals had better change with it. But these institutions, so long overfunded, don't deserve another palliative to ease the transition. More

troubling are the confusing economic signals HCFA's deal sends. The agency still will pay hospitals more than residents are worth but now will try to control supply based on guesstimates of health industry needs.

That sort of micro-management is a risky endeavor. It's not clear, after all, that physician supply is out of whack. After a downtick in 1994, pay for both primary-care doctors and specialists is growing



Uncle Sam will foot a physician-training bill this year of more than \$7 billion

A RESIDENT CHECKS A PATIENT AT BELLEVUE HOSPITAL IN NEW YORK

as 25% of their resident slots. Convinced that the world has too many doctors—and far too many specialists—it will add bonuses for hospitals that up the proportion of residents in primary care. In return, it will save \$700 million it would have spent on incentives. "We'll put them on a diet and discover what they really can do," says Thomas Gustafson, deputy director of the HCFA's Office of Research & Demonstrations.

This is a terrific deal for the 42 hospitals. None will jump off Medicare's gravy train without a push, yet everyone realizes that "one of these days, somebody is drastically going to alter medical education reimbursement," as James Tallon, president of the United Hospital Fund of New York, puts it. Already, insurers are cutting premiums that

again. Record numbers of applicants are beating down medical school doors. And some health-maintenance organizations, admitting that generalist "gatekeepers" aren't the perfect cure-all, are reemphasizing specialist care. We may discover, in five years, that the HCFA is funding the creation of too many primary-care doctors.

Why not let the market determine the right balance? Over time, the supply of physicians will modulate according to entrants' economic expectations—and that's entirely appropriate. Subsidies only distort the process, usually sending resources to the wrong places at the wrong times. Cut the subsidies and remove the inefficiencies, and we'll get as many doctors as we need.

Hammonds writes on health care.

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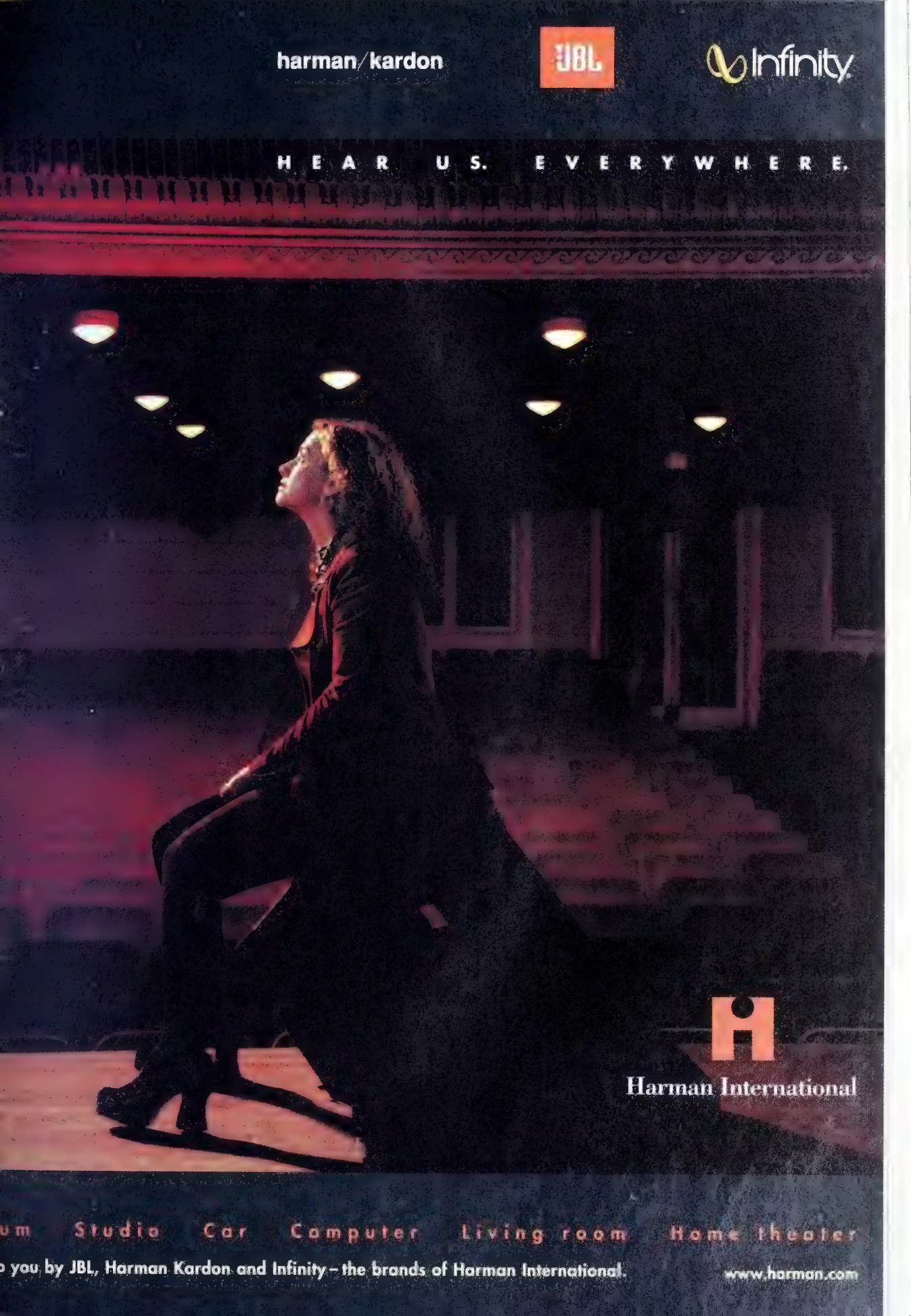
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WHY ZIMA FADED SO FAST

The created-by-committee brew just didn't tickle the taste buds

With the beer industry going flat in the early 1990s, marketing execs at Adolph Coors Co. in Golden, Colo., thought they finally had a product that would put some bubble in their business: Zima, a clear malt concoction meant to attract young consumers. Lured by a quirky ad campaign, twentysomethings rushed to try the strange new brew.

There was just one problem: Almost nobody came back for seconds. "The taste was not appealing, and it left you feeling bloated," says Angel Cain, a 25-year-old IBM employee who tried Zima while at the University of North Carolina. Her cohorts across the country apparently agreed. And in the brief moment that it took them to reject the Zima fad lies one of the more embarrassing marketing miscalculations of the decade.

SOMETHING DIFFERENT. Launched nationally in 1994 into the thick of the New Age beverage craze, Zima was defined almost entirely by what it was not: not a beer, not a wine cooler, and without even a color. Early TV ads featuring Z-speak helped create an off-beat image. "What's in it?" asked a barkeep. "It's a secret. It's something different," replied the mysterious pitchman in his white suit and black hat. A crowd of Generation Xers tried to find out, propelling Zima to a stunning 1.2% share of the beer market almost overnight. But within a year, sales would fall by half, from 1.3 million barrels to 650,000. Last year, they dropped an additional estimated 38%.

Though two years ago Coors touted Zima as having great potential, in the recent 1996 yearend release it barely merited a word. The 39% earnings rebound, to \$47.3 million, on sales of \$1.7 billion last year was eked out by dint of old-fashioned cost-cutting and gains by stalwarts Original Coors and Coors Light. Abandoning its hope for a powerhouse new product to levitate its

market share, the No. 3 brewer is once again staking its future on its flagship brands, overlooked in the Zima excitement. "Specialty brands have a place, but they shouldn't overshadow our core brands," says Coors President W. Leo Kiely III, who inherited the project when he joined the company in 1993.

The tale of Zima's extraordinary rise and fall offers plenty of lessons—from the folly of letting expectations outrun reality to the difficulty of wooing the fickle tastes of young consumers. And Coors is by no means alone in learning from mistakes; other brewers and soft-drink makers also floundered with new products this decade. But few brands had as outsize, and unexpected, an impact on a company as Zima.

Zima may have been the ultimate created-by-committee product. Stuck at a 10% share of the market in a slow-growth industry, Coors was determined to catapult ahead. In 1991, it put together a team drawn from production, marketing, public relations, and Coors' ad agency Foote, Cone & Belding. The mission: to create an alternative to beer, starting from scratch.

Hoping to ride two trends—consumer experimentation and New Age beverages—the Z team conducted hundreds

HIGH HOPES
Coors wanted Gen-X blockbusters but most people who tried the strange malt concoction never came back.

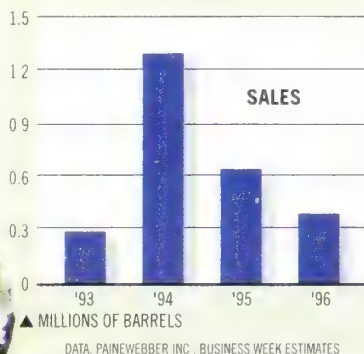
of focus groups, testing even from the taste to the name, taken from the Russian word for winter. "The idea was: What can we do to be different to young adults, with no cannibalization of our existing business," says William H. Weintraub, senior president for marketing.

Their competitors were also creating new brews, showering the market with red beers, dry beers, and ice beers. There were even other clear beers, but their appeal proved evanescent; most died fast. Miller Brewing Co.'s Qube clear malt generated "a lot of curiosity and trial, but the vast majority tried once," says an insider.

EUPHORIC NUMBERS. The Qube project was to repeat with Zima, but the warnings were lost in the euphoric heady trial numbers. Zima was in three markets in the fall of 1993 and scored big as consumers rushed to try the novel brew. "This was something like the results of a Coors introduction," recalls one former executive. "These were the highest numbers ever seen." But some on the Z team were uneasy: The repeat sales were not encouraging, and the beer was drifting toward women, who far less beer.

Any doubts were overwhelmed by the blare of publicity that accompanied the national rollout in early 1994. Zima proved enduring, were it not for a number of marketing moves

THE ZIMA MOMENT



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fluted-glass bottles, the eye-catching in-store displays, and one of the first consumer-product Web sites, which spoke directly to the twentysomethings Coors sought with a downloadable game, merchandise, and an online soap opera.

And Coors didn't stint on advertising. In 1994, it lavished a staggering \$38 million on Zima, according to Competitive Media Reporting, some 38% of its entire ad budget. Much more was spent on packaging, merchandising, and product development. Rivals Miller Lite and Budweiser were beginning to falter, but Coors, sure that it had a gusher, bet on Zima rather than exploit their weaknesses. "What hurts is the opportunity cost of diverting so much time, money, and attention to something that fell on its face," says beverage analyst Emanuel Goldman of PaineWebber Inc.

At first, distributors sitting with stacks of slow-moving, traditional brands couldn't have been more thrilled. The new high-margin brew, priced between super-premiums and imports at \$5.99 a six-pack, was flying out of the warehouse. "I sold 18 railcars' [worth] in the first 30 days," recalls James Merideth, vice-president of Zeb Pearce Cos., a Phoenix-based distributorship. "In 31 years, I've never seen anything like that." Coors marketing executives hadn't, either. For the year, Zima helped push sales to record levels. In retrospect, though, those dazzling early numbers led to a certain hubris. "The marketing created a huge amount of visibility, and Zima became the in thing," says Weintraub. "But it also set up the expectation of a long-term, huge business."

A LETTERMAN JOKE. Within months of the rollout, Zima started to go flat. Although Foote Cone's early ads created mystique by enumerating what Zima was not, Coors never made it clear what it was. "You couldn't tell whether you should be pounding it down or sipping it over ice," says one former marketing exec. A second wave of ads in '94 featuring stereotypical Gen-Xers at play didn't help. Suddenly, the once hip drink was the butt of David Letterman jokes.

But Zima suffered from a worse problem than bad advertising: It had a flavor, that, to put it kindly, wasn't

habit-forming. "We had people who liked the idea but not the taste," admits Robert Joanis, vice-president of marketing for Coors' microbrew unit. Consultant Tom Pirko, president of Bevmark LLC, was monitoring Zima for other clients. "You couldn't find any consistent feeling from any group," he says. "It was meant to be fun and easy, but it was expensive, and people couldn't find the value."



FROM FIZZ TO FIZZLE

SPRING '91 As the beer industry slows, Coors searches for a new beverage. The result: Zima, a clear malt brew.

FALL '92 Test market results are stunning, though consumers seems weighted toward women.

EARLY '94 Zima snags a huge 1.2% of the beer market in a national rollout. But big trouble lies ahead: Amid complaints about taste, there are few repeat buyers.

SPRING '95 With sales falling, Coors makes a desperate attempt to broaden appeal with the short-lived Zima Gold.

EARLY '96 Coors returns to core brands, relaunching Original and beefing up ads for Coors Light.

EARLY '97 Earnings rebound on core brands. Zima settles into a specialty niche.

Coors could have re-trenched sooner if only the marketers had listened to the marketplace. Distributors alerted them early on that Zima drinkers were mixing the stuff with fruit juice. "Consumers were telling us that flavors should be added," says Dallas distributor Dennis E. Nauslar. But Coors resisted until long af-

ter the Zima wave had crested, fearing that a flavored product would consign Zima to the has-been status of a ju cooler.

What's more, even though the consumer profile was largely female, Coors was determined that the brand appeal to men as well. That led to two major critical errors. Despite mounting evidence to the contrary, executives were convinced that Zima sales could at least hold steady in 1995. "We should have been so greedy," concedes one insider. To make that happen, Coors experimented with "micro-Zimas, settling on a high-octane Zima Gold with a slight taste of bourbon. Rushed into national rollout in the spring of 1995, it lasted just six weeks. Instead of climbing, sales for Zima in '95 fell by half. When net profit dropped 26% that year, Coors told shareholders that management had been distracted by Zima's initial success.

HIGH-OCTANE DROSS. The Gold debacle finally forced Coors to concede that Zima wasn't destined to become a mainstream brand. Last year, ad spending shrank to an estimated \$6.5 million. The once hot Web site is now just an afterthought, its games and other interactive features gone. A much-diminished Zima makes money on an operating basis, but Coors is some way from recouping the estimated \$180 million poured into the launch. Merideth's Phoenix distributorship, sales have settled in at about 14,000 a month, placing it somewhere between Beck's and



TWENTYSOMETHING AD CAMPAIGN

Heineken. "If you look at it that way, it's pretty nice," he says.

Coors management is eager to put the Zima boondoggle behind it. The year since the brewer refocused on its core brands, it has made some progress. A relaunch of Original Coors seems to have reversed steady declines. Heavier spending behind Light helped it grow 4% last year. And Zima? This spring, Coors plans to relaunch it, this time as a fruit-flavored niche product.

By Richard A. Melchior in Golden, Colo.

DEAD MEN DON'T SCREW UP AD CAMPAIGNS

Some of today's hottest corporate pitchmen are history

For a guy who went to that big game in the sky more than 25 years ago, Vince Lombardi had a very busy week. On football Sundays, the legendary Green Bay Packers coach was back in the limelight, starring in a string of 10 TV commercials for Nike Inc.

Nike and a pack of other corporate advertisers have discovered a new breed of pitchmen who don't spit in umpires' faces, get busted for drugs, or beat up

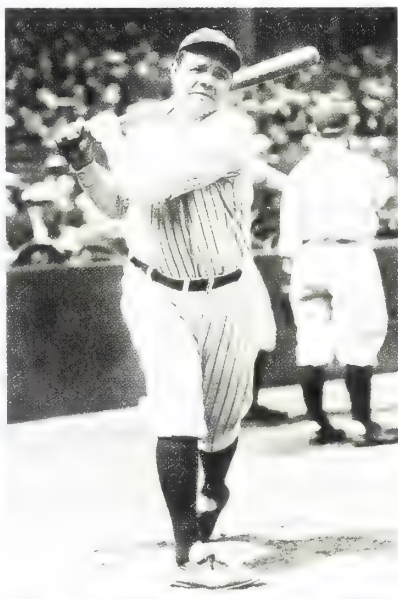
their wives: dead legends. Among the deceased, sports icons are especially hot. Corporations currently featuring such stars in their ad campaigns include Citibank (Babe Ruth), Microsoft (Lou Gehrig and Jesse Owens), and Miller Brewing (Satchel Paige). Jackie Robinson's popularity with advertisers has soared this year, the 50th anniversary of his breaking the color barrier in baseball. Corporate advertisers whose campaigns evoke Robinson's memory include McDonald's, Coca-Cola, Apple Computer, and General Mills.

In the Nike ads, Lombardi (played by *Amfild's* Jerry Stiller) dispenses hard-earned commentary on an array of football voices and grudging praise for his favorite National Football League stars—many of whom have endorsement contracts with the sports shoe company. Response to the ads was overwhelming, say Nike executives. "We could have used current coaches. But when you think about who best represents the core values of football, no one lives up to the legend of Lombardi," says Chris Zimmerman, Nike's North American ad director.

LOW RISK. Ruth was chosen to represent Citibank in an upcoming campaign—years after his death and 62 since his last homer—for similar reasons. "Babe's American sports icon, instantly rec-

ognizable," says Ken Gordon, a Citibank vice-president, explaining why Ruth got the nod over contemporary ballplayers.

Using a deceased sports celebrity to anchor an ad campaign can work beautifully—and be relatively cheap. For the use of Ruth photos in three newspaper ads, investment bank Alex. Brown & Sons Inc. paid \$15,000, chicken feed compared with the fees commanded by some of today's superstars.



THE BABE AND BOBBY JONES: No danger of a downside

And advertisers get more than a bargain when they hire the dead. There's also peace of mind. Campaigns featuring living sports figures can be high-risk, vulnerable to sabotage by a career-ending injury or a highly publicized arrest.

Dead celebrities are nearly scandal-proof. "Controversies aren't likely to loom up," says Mark A. Roesler, an Indianapolis lawyer who makes deals for the families of about 100 legends. "O.J. Simpson gets in trouble. But Babe Ruth isn't going to kill anybody."

Roesler gets a big chunk of the credit for turning Lombardi, Ruth, and other departed heroes into hot properties. His company, Curtis Management Group, has been cutting deals for survivors of dead

stars for 16 years. Roesler's first clients were James Dean and Elvis Presley. Revenue from such deals, after Curtis takes its share of 40% to 45%, goes to family members or others named in the deceased's will.

FOUND MONEY. Fittingly, Ruth is the cleanup hitter of dead legends. Overall, "his [earning power] dwarfs any other sports personality we handle," says Roesler, who allows that some years the Yankee great's gross earnings have topped \$1 million—far more than the career-high salary of \$80,000 he earned in 1930. For their part, Ruth's survivors see the income as found money. "It has made such a difference," says Julia Ruth Stevens, the Babe's 79-year-old daughter. Since signing with Curtis about a dozen years ago, she has moved to a fashionable suburb of Phoenix and traded in her car. "It's a Volvo now instead of a Chevrolet," she says.

Some families are more selective than others. Heirs of Bobby Jones generally refuse to lend the name or image of the golfing immortal to ad campaigns. The few exceptions are product lines—including Callaway golf clubs and Hickey Freeman sportswear—sold under the Jones name. "Bobby didn't commercialize his name much while he was alive. To be true to his image, his heirs haven't been interested in doing a lot of licensing," says David J. Stewart, a lawyer for Jones's grandchildren.

Still, it's comforting for descendants of sports icons to know they can

control the images of the deceased. Until Curtis stepped in, say some family members represented by the firm, they were at a loss to stop those who cheapened their champion's memory. "Nothing anyone can do is going to enhance my father's reputation, but they certainly can detract from it," says Vince Lombardi Jr., a motivational speaker in Seattle.

Clearly, not every advertiser can pass muster. But for those that do, there is one final plus to building a campaign around a long-gone hero: They don't have to deal with spoiled sports brats who show up late for shoots, demand the star treatment, and throw tantrums. These dead guys are a pleasure to work with.

By Mark Hyman in Baltimore

EDITED BY EDWARD C. BAIG

HOW TO TAKE THE MEASURE OF A MONEY MANAGER

Dissatisfied with his portfolio's lackluster returns, Long Island entrepreneur Sandy Kane fired his stockbroker and hired a private money manager who promised to deliver superior performance. Four years and an equal number of managers later, the 54-year-old owner of a sales-promotion business is still wondering whether having his own money manager has been worth it.

Like Kane, most investors choose a money manager with one grand goal in mind: to achieve consistent killer returns. But the biggest mistake many investors make is blindly focusing on performance while ignoring investment style and tax efficiency, according to Len Reinhart, chairman of Lockwood Financial Group in Malvern, Pa., which handles both mutual funds and separately managed accounts. It's easy to present strong numbers in a bull market, but performance results are often deceptive. Typically, a firm's prospective clients are shown the

numbers in a one-size-fits-all "model portfolio," which may bear little resemblance to your own account. And it may not even be run by the manager with whom you will invest. **"REAL MONEY."** Most separately managed accounts require a minimum investment of \$100,000 and are best suited for investors with large taxable accounts who have specialized investment needs. But critics question how much attention that amount of money will buy. "It's hard to believe



that someone with even a \$1 million portfolio thinks they're going to get that much personalized service," says Harold R. Evensky, a financial planner in Coral Gables, Fla. "Real money begins at \$100 million for these managers." Armed, however, with a modicum of knowledge, even those who have little more than the minimum can find a competent manager.

Think of a privately managed account as your own personalized mutual fund, run by someone whose full-time job is buying and selling securities. Contrast that with plain-vanilla brokers who spend a good portion of their day drumming up business and servicing clients. Proponents of separately managed

accounts claim that they are more tax-efficient than mutual funds, since the manager can time the sale and purchase of securities to match your needs.

Unless you dig beneath a manager's returns and fees—typically 1% to 3% of the assets under management—most privately managed accounts look the same. By asking the right questions, you substantially narrow the universe of qualified managers, thereby increasing the chances that you'll end up with the kind of customization you require.

You may want to begin by asking a financial planner for a referral. Financial planners and money managers both provide investment advice, but a financial planner takes a

more global approach to your finances. The International Society for Financial Planning (800 945-4237), Institute of Certified Financial Planners (800 282-7526), or National Association of Personal Financial Advisors (888 333-6659) can refer you to a planner in your area who will recommend qualified money managers. An extra precaution: For \$39, the National Fraud Exchange (800 822-0416, ext. 33) will do a comprehensive background check on an adviser.

TAILORED APPROACH. Of course, you'll want to examine the firm itself. How long has it been in business? How much experience does it have with individual investors? Many firms cater to institutional clients. Too often, the attractive performance num-

INVESTING

As you are shown apply to the firm's institutional-free portfolios, says Brian Berris, a partner at Brown Brothers Harriman & Co. in New York. "Find out how much of the assets under management are similar to your own," he adds. Many institutional firms have a model portfolio that



you use for all accounts. The best money managers take a more tailored approach. Ask who will be making the individual buy-and-sell decisions for your account. An account statement with an odd number of shares may be a sign that you are not getting personalized attention, says Berris. The reason: Most managers buy in round lots. Therefore, an odd number may mean that the manager triggered your account into a computer model and divvied your assets among its holdings.

Once you are satisfied with the firm, turn your attention to the individual manager. The first step is to request the ADV form that firms and advisers are required to submit to the Securities & Exchange

Commission, says Tony Sagami, marketing director at AdvisorLink, a money-management evaluation service in Austin, Tex. Part 1 of this form can reveal any skeletons (bankruptcies, investment-related civil or criminal judgments, etc.) in a manager's background. Part 2 provides background on the firm and discloses any egregious compliance problems. Firms are required to give you ADV Part 2, but you'll get Part 1 only if you ask.

Only now is it time to focus on the performance numbers. While the Association for Investment Management & Research has developed guidelines encouraging managers of taxable portfolios to report their pre- and post-tax results, most firms only show pretax numbers. "Few people have any idea how important that tax drag can be on their portfolio," Berris says. One indication of tax efficiency is low portfolio turnover, but it is important to ascertain what additional strategies the firm and the manager have to promote favorable aftertax performance. For example, a tax-savvy manager may invest in stocks where most of the return comes from capital appreciation, taxable at 28%—vs. stocks with high dividends, taxable annually at as much as 39.6%.

Yet just comparing the numbers on a tax basis isn't enough. You need to find out what they represent. "There's a great range of latitude taken by managers to use the performance composite that looks best," Berris says. A prospective client may be shown performance numbers from one "star" manager or carefully chosen accounts.

CLUNKER. If the numbers you are shown represent a composite, ask for the dispersion, or range, of the highest and lowest returns among the firm's money managers, advises Heidi Steiger, director of the Individual Asset Management division of Neuberger & Berman in New

York. If dispersion is low, selecting one portfolio manager over another may have little impact on your account's performance. And if it's high, you could end up with a clunker. Ask the firm where the manager who will be handling your account is ranked. If you're not satisfied, go elsewhere.

turn with the Standard & Poor's 500-stock index during the same period.

Always ask for a range of performance results from best to worst across various time periods and compare the results with the appropriate benchmark. A good manager will describe the risk-reward profile of the benchmark in

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DATA BUSINESS WEEK

As always, your best defense is to read the fine print or footnotes on all data you get your hands on. "Look at a firm's performance track record," Sagami suggests. And, adds Steiger: "Find out why the firm chose that particular time period."

No matter what the time frame is, however, make certain that you understand how much risk the manager took in order to achieve those returns. Remember to check a manager's performance in bear as well as bull markets. Start by having the firm break down the overall return by asset class. Then check the return for each class against its relevant benchmark or index. For example, compare the large-cap portion of the manager's re-

question and why it is relevant to your own account.

Once you are actually assigned to a money manager, find out how many other portfolios that person oversees. It is not uncommon for managers within the private banking departments of commercial banks to manage well over 200 accounts. You must decide how little attention you are willing to accept if your manager runs numerous portfolios.

Part of the allure of a separately managed account is having one of the best investment minds in the business at your personal disposal. But unless you take the time to ask the right questions, you'll end up with little more than a glorified—and rather expensive—mutual fund.

Kerry Capell



A GOOD TIME TO DRILL FOR ENERGY BARGAINS

It costs more to fill the fuel tank in your car these days, and you've noticed that

your neighbors are all driving sporty gas guzzlers. Meanwhile, the press is still gushing about last year's record profits in the oil patch. Have you missed the chance to strike it rich by investing in energy stocks?

BLACK GOLD. Hardly. Investors willing to take on a little extra risk and explore beyond the big-name oil companies can still uncover black gold. Analysts advise people to dig into the energy-service companies that supply drilling equipment, crews, and seismic data to the major oil companies. True, the service sector was a 1996

standout. The Standard & Poor's Oil-Well Equipment & Services index returned 44% last year, vs. 25% for the S&P 500-stock index. But analysts insist there are further gains to be made. A January thaw has melted the prices of many energy shares, so a number of companies are trading below their recent peaks.

"I've seldom seen a better time to invest," says William Walker, president of Howard Weil Labouisse Friedrichs, an energy investment firm in New Orleans. Walker's optimism reflects rising budgets for exploration and production, demand for energy, and the sector's recent weakness. His latest recommenda-

tions include such 1996 market stalwarts as Baker Hughes, Schlumberger, Halliburton, and two stocks that have tumbled amid the small-cap sell-off this year: Houston-based Seitel, which analyzes seismic data, and New Orleans-based Tidewater, a marine transporter.

Strong crude and natural-gas prices have major oil companies hiking spending on exploration and production 7% to 8% this year. Some are planning to spend even more. Atlantic Richfield, for example, will increase its spending by 24%, Mobil by 17%, and Texaco by 22%. A broader survey of 92 mostly smaller oil companies by Arthur Andersen found that 70% of the companies are planning to raise spending on domestic exploration and development projects. And two-thirds plan to keep spending levels high overseas.

Diamond Offshore Drilling, which supplies the majority of the rigs used in the deep waters off the Gulf of Mexico, is a prime example. Wall Street expects earnings of the Houston-based company to rise 75% this year, to \$257 million, thanks to a shortage of drilling rigs. With 92% of the world's offshore rigs now under contract, Diamond is in an ideal position. Indeed, 20 of its 46 rigs will come off existing contracts this year. And "new contracts will be at much higher day rates, which will lead to accelerating earnings in 1997," according to Salomon Brothers analyst Mark Urness.

Some analysts are even betting on a cyclical rebound to prosperity in the long-pressed oil-refining market. "This is the only area in industrial America that hasn't had an upturn in the current business cycle," says Morgan Stanley analyst Douglas Terreson.

PURE PLAYS. There are indications that such a turnaround may already be taking place. A rising tide of low-quality crude imports is cutting U.S. refiners' feedstock costs. What's more, consolidation among gasoline retailers should raise profits for refiners, such as Ultramar Diamond Shamrock and Tosco, that own their own service stations. Terreson picks include Tosco, based in Stamford, Conn., and Bharat Petroleum, a Bombay refiner that could benefit from the deregulation of India's oil industry. Two U.S. refining pure plays that should also profit from a cyclical uptick are Valero Energy in San Antonio and Ashland in Russell, Ky. Each is spinning off non-refining businesses.

What about the major oil companies such as Exxon, Shell, and British Petroleum? Despite record 1996 profits and fatter dividends, integrated oil companies outperformed—but didn't beat—the gains of the Standard & Poor's 500-stock index last year. And prospects are better this year. Current prices for crude and natural gas are healthy but should fall well below last year's peaks of \$26 a barrel for crude oil and \$3 per thousand cubic feet for natural gas. With crude now selling at \$21.11 a barrel and gas at \$1.83, profit gains won't measure up to 1996—hardly a scenario for a good run among investors. So if you're antsy to own some of the pricier oil there's always the local gas station. Just pull in and say, "Fill 'er up, please."

Gary McWilliam

Energy Stocks to Consider

COMPANY	RECENT PRICE*	52-WEEK HIGH	P-E
ASHLAND	43 1/2	48 1/2	20.0
DIAMOND OFFSHORE DRILLING	60 1/2	73 1/2	25.9
HALLIBURTON	66 1/2	74	25.7
SEITEL	34 1/2	44 1/2	24.8

*As of Feb. 25

SOURCE: SALOMON BROTHERS FINANCIAL MARKETS

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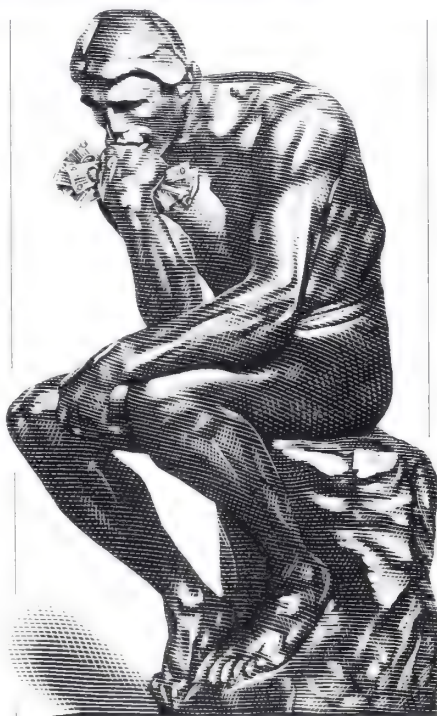
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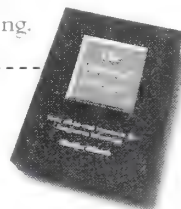


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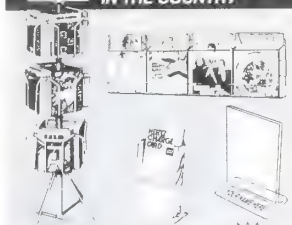
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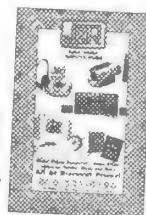
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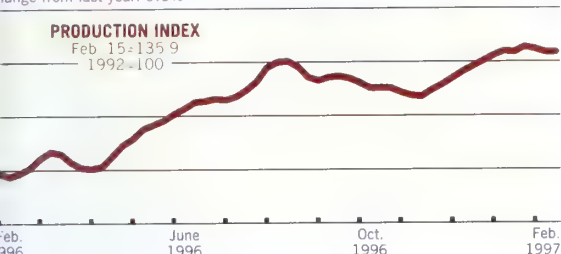
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Business Week Index

PRODUCTION INDEX

Change from last week: 0.0%
Change from last year: 9.0%



Production index was unchanged during the week ended Feb. 15. That's the first sign that the industrial sector is slowing down this quarter. Before the start of the four-week moving average, the index fell slightly to 135.5, from 135.7 in the previous week. On a seasonally adjusted basis, increases in output of electric power, steel, and lumber production nearly offset the declines in output of trucks and coal and rail-freight traffic.

Production index copyright 1997 by The McGraw-Hill Companies

LEADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STOCK PRICES (2/21) S&P 500	801.77	808.48	23.0
CORPORATE BOND YIELD, Aaa (2/21)	7.23%	7.26%	1.4
INDUSTRIAL MATERIALS PRICES (2/21)	108.2	108.0	-1.9
BUSINESS FAILURES (2/14)	NA	NA	NA
REAL ESTATE LOANS (2/12) billions	NA	NA	NA
MONEY SUPPLY, M2 (2/10) billions	\$3,859.7	\$3,860.2r	4.7
LABOR CLAIMS, UNEMPLOYMENT (2/15) thous.	309	308r	-18.3

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept.

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
FEDERAL FUNDS (2/25)	5.28%	5.55%	5.20%
COMMERCIAL PAPER (2/26) 3-month	5.39	5.38	5.16
CERTIFICATES OF DEPOSIT (2/26) 3-month	5.35	5.34	5.16
FIXED MORTGAGE (2/21) 30-year	7.74	7.85	7.24
ADJUSTABLE MORTGAGE (2/21) one-year	5.65	5.81	5.39
TREASURY BOND (2/18)	8.25	8.25	8.25

Sources: Federal Reserve, HSH Associates, Bloomberg Financial Markets

W data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

PERSONAL INCOME

Friday, Mar. 3, 8:30 a.m. EST ▶ Income per capita grew just 0.1% in January, while consumer spending rose 0.5%. Those are the latest forecasts of economists surveyed by International, one of The McGraw-Hill Companies. In December, income surged 0.5% and spending was up 0.5%.

CONSTRUCTION SPENDING

Friday, Mar. 3, 10 a.m. EST ▶ Building spending was likely flat in January after dropping 0.7% in December.

PM SURVEY

Friday, Mar. 3, 10 a.m. EST ▶ The National Association of Purchasing Management's

business index probably rose to 52.5% in February, from 52% in January.

LEADING INDICATORS

Tuesday, Mar. 4, 10 a.m. EST ▶ The index of leading indicators was likely up 0.1% in January, the same gain reported in December.

NEW HOME SALES

Tuesday, Mar. 4, 10 a.m. EST ▶ New homes probably sold at an annual rate of 750,000 in January, says the MMS survey. That's a drop from December's 783,000 rate.

FACTORY INVENTORIES

Thursday, Mar. 6, 10 a.m. EST ▶ Factory inventories probably rose 0.2% in January,

after falling 0.3% in December. Orders likely increased 0.7% in January, partly reversing a 1.3% December drop.

EMPLOYMENT

Friday, Mar. 7, 8:30 a.m. EST ▶ The MMS survey calls for a 210,000 gain in nonfarm payrolls in February, after the 271,000 added in January. The unemployment rate likely fell to 5.3% from 5.4% in January. A higher-than-expected job gain or a jobless rate of 5% could rock the financial markets.

CONSUMER CREDIT

Friday, Mar. 7, 3 p.m. EST ▶ Installment debt likely rose by \$5.5 billion in January on top of \$4.9 billion borrowed in December.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (2/22) thous. of net tons	2,115	2,078#	0.8
AUTOS (2/22) units	132,444	127,374r#	-3.0
TRUCKS (2/22) units	135,930	126,482r#	10.2
ELECTRIC POWER (2/22) millions of kilowatt-hrs.	61,026	65,844#	1.9
CRUDE-OIL REFINING (2/22) thous. of bbl./day	13,422	13,392#	-0.8
COAL (2/15) thous. of net tons	20,817#	21,398	-2.6
LUMBER (2/15) millions of ft.	513.6#	496.9	17.9
RAIL FREIGHT (2/15) billions of ton-miles	27.1#	27.2	1.9

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWP1, SFFA2, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (2/26) \$/troy oz.	354.800	346.250	-10.8
STEEL SCRAP (2/21) #1 heavy, \$/ton	145.50	146.50	0.7
COPPER (2/21) ¢/lb.	115.4	111.5	-4.2
ALUMINUM (2/21) ¢/lb.	76.0	74.8	0.0
COTTON (2/22) strict low middling 1-1/16 in., ¢/lb.	69.75	69.98	-14.2
OIL (2/25) \$/bbl.	20.45	22.14	4.2
CRB FOODSTUFFS (2/25) 1967=100	241.98	238.28	3.5
CRB RAW INDUSTRIALS (2/25) 1967=100	345.06	345.19	4.9

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (2/26)	122.61	124.39	104.44
GERMAN MARK (2/26)	1.69	1.70	1.47
BRITISH POUND (2/26)	1.63	1.61	1.53
FRENCH FRANC (2/26)	5.71	5.74	5.02
ITALIAN LIRA (2/26)	1681.5	1690.4	1547.5
CANADIAN DOLLAR (2/26)	1.37	1.36	1.37
MEXICAN PESO (2/26) ³	7.782	7.777	7.545
TRADE-WEIGHTED DOLLAR INDEX (2/26)	104.3	105.0	95

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar via J.P. Morgan

This Week, Online

Business Week presents frequent live conferences and chats on America Online—your opportunity to ask questions about features from the magazine.

Sunday

It's the "biotech century," dramatically illustrated by the breakthrough cloning of a sheep. To discuss the potential and perils, join bioethicist Arthur L. Caplan and BW's John Carey. **Mar. 2 9 p.m. EST in the Globe**

Monday

Buying a franchise? Talk first with Robert Purvin Jr. of the American Assn. of Franchisees & Dealers. **Mar. 3 8 p.m. EST in the BW Enterprise Chat Room**

Thursday

In the global economy, the MBA is going global, too. Consultant Sally Lannin outlines how to get into the best B-schools outside the U.S. **Mar. 6 8 p.m. EST in the AOL Live Chat Cafe**

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.

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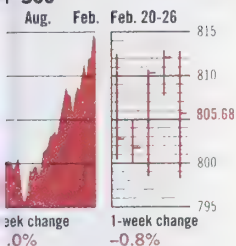


Business Week (ISSN 0007-7135) published weekly, except for one issue in January, by The McGraw-Hill Companies, Inc. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$49.95/year; Canada: CD \$69/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08520.

Investment Figures of the Week

CKS

P 500



MENTARY

Encouraging week in the financial markets. The Dow Jones industrial average ended at 7038 on Feb. 25, to plunge on Feb. 26 in reaction to comments by Fed-Reserve Chairman Alan Greenspan. After the Fed chair- warned that the Federal Reserve might boost rates to offset inflation, the Dow fell 55 points. The market recovered, ending the day down 55 points, at 6983. Bond prices gained their biggest losses since July in the wake of the Greenspan remarks.

U.S. MARKETS

	Latest	% change Week	% change Year
Dow Jones Industrials	6983.2	0.8	25.8
NASDAQ Combined Composite	1340.6	-0.5	21.2
S&P MidCap 400	266.4	0.1	16.2
S&P SmallCap 600	146.0	-1.8	16.4
S&P SuperComposite 1500	172.5	-0.9	22.7

SECTORS

	Latest	% change Week	% change Year
Bloomberg Information Age	247.4	-0.9	18.2
S&P Financials	94.2	-1.7	40.8
S&P Utilities	196.6	-1.4	-0.8
PSE Technology	265.1	-1.5	21.2

FOREIGN MARKETS

	Latest	% change Week	% change Year
London (FT-SE 100)	4329.3	-0.6	16.5
Frankfurt (DAX)	3237.9	1.3	32.4
Tokyo (NIKKEI 225)	18,990.9	-0.3	-5.0
Hong Kong (Hang Seng)	13,541.8	1.0	20.9
Toronto (TSE 300)	6201.4	-0.1	25.2
Mexico City (IPC)	3890.2	0.4	31.6

FUNDAMENTALS

	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.79%	1.78%	2.15%
S&P 500 P/E Ratio (Last 12 mos.)	21.2	21.4	18.7
S&P 500 P/E Ratio (Next 12 mos.)*	17.2	17.2	NA
First Call Earnings Revision*	-0.71%	-0.34%	NA

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 200-day average	705.5	701.4	Positive
Stocks above 200-day average	72.0%	73.0%	Negative
Options: Put/call ratio	0.59	0.58	Negative
Insiders: Vickers Sell/buy ratio	1.79	1.78	Positive

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS

	Last month%	Last 12 months%
Savings & Loans	23.5	121.7
Leisure Time	14.8	72.8
Genl. Merchandise Chains	14.5	69.1
Invest. Banking/Bkrgr.	13.9	58.5
Trucking	13.7	51.5

WORST-PERFORMING GROUPS

	Last month%	Last 12 months%
Oil & Gas Drilling	-15.5	-26.3
Communications Equip.	-12.8	-20.1
Oil Exploration & Prod.	-12.1	-19.4
Oil-Well Equip. & Svcs.	-6.6	-17.2
Engineering & Constr.	-5.0	-11.7

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness

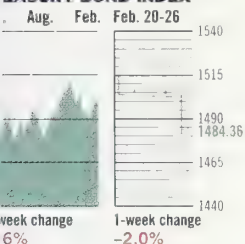
	Price	1-month change
Motorola	57 3/8	-7 3/8
ITT	57 1/4	-1 1/4
Tele-Communications	13	-19 1/16
Hefel Broadcasting	40 7/8	-3 5/8
Conrail	104 1/2	-1 5/8
WMX Technologies	33 3/8	-1 3/8

Decline ahead? Stocks with most significant selling on price strength

	Price	1-month change
Microsoft	99 1/2	3 3/8
Oracle	40 7/8	2 3/4
Amgen	62 7/8	7 15/16
Sun Microsystems	32 3/4	1 1/2
Worldcom	26 3/8	3/4
Gateway 2000	61 1/4	9/8

INTEREST RATES

TEASURY BOND INDEX



Bloomberg Financial Markets

KEY RATES

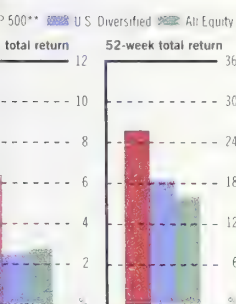
	Latest	Week ago	Year ago
MONEY MARKET FUNDS	4.95	4.96	4.93
90-DAY TREASURY BILLS	5.18	5.11	4.98
6-MONTH BANK CDS	5.01	5.01	4.63
1-YEAR TREASURY BILLS	5.59	5.46	5.05
10-YEAR TREASURY NOTES	6.53	6.30	6.01
30-YEAR TREASURY BONDS	6.78	6.57	6.45
LONG-TERM AA INDUSTRIALS	7.28	6.99	7.06
LONG-TERM BBB INDUSTRIALS	7.61	7.39	7.47
LONG-TERM AA TELEPHONES	7.48	7.27	7.36

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	Last week	30-yr. bond Latest week	Last week
GENERAL OBLIGATIONS	4.84%	4.75%	5.44%	5.35%
PERCENT OF TREASURIES	74.17	75.36	80.32	81.39
TAXABLE EQUIVALENT	7.01	6.88	7.88	7.75
INSURED REVENUE BONDS	4.91	4.82	5.63	5.54
PERCENT OF TREASURIES	75.24	76.47	83.13	84.28
TAXABLE EQUIVALENT	7.12	6.99	8.16	8.03

MUTUAL FUNDS



Morningstar, Inc.

EQUITY FUNDS

Leaders		Laggards	
Four-week total return	%	Four-week total return	%
American Heritage	21.9	Van Wagoner Emerging Gr.	-12.2
Lexington Troika Russia	21.4	Fidelity Sel. Natural Gas	-12.0
Morg. Stn. Inst. Lat. Am. A	13.3	Calvert Strat. Growth C	-10.3
Morgan Stan. Latin Am. A	13.2	Van Wagoner Micro-Cap	-9.5
Merrill Latin America A	11.9	OVV Emerging Growth A	-9.5
Leaders		Laggards	
52-week total return	%	52-week total return	%
Vontobel Eastern Europ. Eq.	84.7	Steadman Technology Grth.	-41.7
State St. Res. Glob. Res. A	58.6	United Svcs. Gold Shares	-34.3
Interactive Inv. Tech Val.	56.1	Matthews Korea	-31.8
Morg. Stanley Inst. Lat. Am. A	54.1	DFA Japanese Small Co.	-31.1
Morgan Stanley Latin Am. A	53.0	Fidelity Japan Small Co	-30.3

EQUITY FUND CATEGORIES

Leaders		Laggards	
Four-week total return	%	Four-week total return	%
Latin America	10.9	Small-cap Growth	-3.4
Financial	8.6	Natural Resources	-2.1
Precious Metals	7.9	Technology	-1.3
Health	5.4	Mid-cap Growth	-0.3
Diversified Emerging Markets	5.1	Small-cap Blend	0.1
Leaders		Laggards	
52-week total return	%	52-week total return	%
Financial	36.8	Japan	-15.3
Latin America	35.8	Precious Metals	-7.2
Real Estate	33.0	Diversified Pacific	-0.3
Europe	23.0	Pacific ex-Japan	4.4
Small-cap Value	22.1	Communications	5.4

are as of market close Wednesday, Feb. 26, 1997, unless otherwise indicated. Industry include S&P 500 companies only. Fundamentals, technical indicators, Bloomberg mon-

ey flow analysis, and mutual fund returns are as of Feb. 25. For a more detailed explanation, write to us or E-mail figures@businessweek.com. NA=Not available. **Vanguard Index 500 Fund

DON'T BE AFRAID OF GENETIC RESEARCH

The widespread hand-wringing over what must be one of the greatest scientific feats ever—the cloning of an animal—is sad testimony to the growing politicization of genetic research. Instead of celebration, there is a chorus of Cassandra and a wave of worry. President Clinton talks of the “troubling” implications of cloning, and an army of bioethicists worldwide immediately warns of society’s being unprepared for the Frankensteinian implications of replicating life.

When Scottish embryologist Ian Wilmut stunned the world by creating Dolly—an exact living copy of a lamb—he put a spotlight on science’s recent explosion in understanding life and how to alter it. It goes way beyond cloning. Just as the past hundred years made up the century of chemistry and physics, so will the next be the century of biology. Imagine new medicines, better crops, and even biocomputing. Gene-altered animals could produce hearts for transplants and drugs for treatment. Disease-resistant rice and wheat could sharply raise yields. What better model is there for storing information than the sequence of links in the chains of DNA (page 78)?

Yet genetic research, while it fascinates, also scares people. Such movies as *The Boys from Brazil*, about cloning new Hitlers, and *Jurassic Park*, about the dangers of replicating dinosaurs, touch something deep in many people who are uneasy about the manipulation of life. Even *Multiplicity*, a comedy about a harried man cloning himself so that he may

double- and triple-task through life, shows one copy turning out to be a dumb, drooling, defective human being.

This distrust of using biological science to tamper with life has haunted genetic research from the start. Despite centuries of animal and plant breeding, opposition to gene-altered tomatoes and potatoes delayed their introduction for years. The U.S. Congress has virtually banned all government-funded embryo research, thanks to the politics of abortion. France and Germany have banned genetically altered foods and drugs. The result? The research shifted offshore. To thousands of parents who now have children thanks to in vitro fertilization can thank British researchers for their families.

There is no question that the notion of individuals cloning themselves is not only repugnant but also raises important questions: Should humans be cloned to provide body parts for dying children? Is replication reproduction or slavery? The ethical questions alone boggle the mind.

Fear of the future should not quell the budding biological revolution. Thanks to the Human Genome Project and similar projects for animals and plants, scientists are poised to know the complete blueprint of life. Rejecting this knowledge in a reactionary spasm of scientific know-nothingism would be a tragedy of immense proportions. It would choke the human spirit of adventure, of challenging the old, and pushing the envelope of what can be done. The world should embrace the biological revolution, not cringe from it.

THE POWER STRUGGLE IN CHINA

When both the liberal *New Republic* and the conservative *Weekly Standard* magazines agree that China is an enemy, and Republicans in Congress accuse CEOs doing business with Beijing of being greedy, it is clear that the consensus governing U.S. policy toward China for the past 25 years is breaking down. Asia is a growing flash point for conflict, and the U.S. must decide what its goals are in the Pacific Rim and what kind of relationship it wants to have with China.

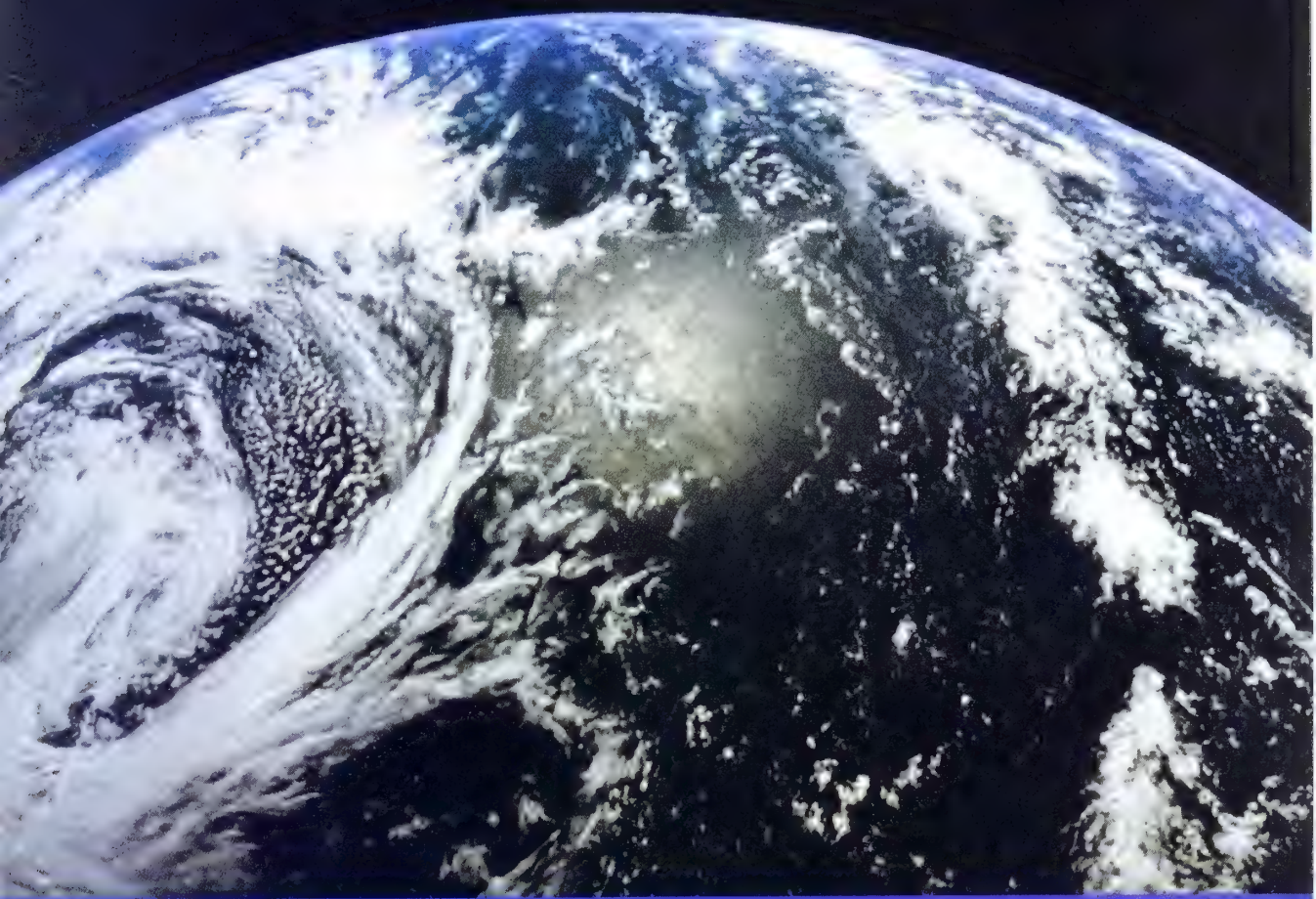
U.S. policy should go beyond the stale debate over engagement vs. containment to address the three major issues of importance to Asia today: the rise of Chinese power and its nature; the staying power of the U.S. in the region; and the possible return of Japan to militarism. (Surprising as it may seem to Americans and Europeans, many Asians view Japan warily because it refuses to apologize for its World War II behavior and has today the region’s largest navy and air force.)

No one knows what path China will take following the death of Deng Xiaoping, but the U.S. can help shape the future by turning China’s desire to enter the World Trade Organization into an opportunity for furthering pluralism. Reformists want to downsize the huge state-owned sector, create an independent Parliament, build a new legal system,

and open the entire economy to market forces. Before the Tiananmen Square massacre in 1989, these reformers had a serious chance of taking power in China. They can again. The old ex-Communist Party elite, however, is fighting to retain the state-owned sector because it is the foundation of their power and wealth. A mercantile economic policy favors the reformers. By insisting on serious WTO entry rules, the U.S. can bolster the reformers, help spread the pluralism-producing solvent of market capitalism, and peacefully integrate China into the global system. Nothing is more important to U.S. policy in 1997 than China and the WTO.

America’s military commitment to keeping the balance of power stable in Asia is critical as well. An arms race is under way all over the region, buttressing the power of generals everywhere, especially in China. The U.S. must show Asia a long-term commitment to blocking military projections of power by any country. By persuading, cajoling, and insisting that the “game” be an economic one based on free-market rules, the U.S. can help channel the rising power of China into internationally acceptable forms of competition. This is a foreign policy goal worthy of consensus from all groups in America, including its chattering class.

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TWO-TIER MARKETING

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Companies are tailoring their products and pitches to two different Americas

Upscale

Downscale

Pewter cup \$56

Classic Pooh dress \$85

Knart jumper \$14

Plastic cup \$6

Stuffed bear by Gund \$25

Plush cartoon Pooh \$15

al Doulton dish set \$40

Plastic dish set \$15

They sang the song

I be happy pooh

POOH

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our customers a seamless digital experience. Our focus is on the
customer journey, not just the product." — David J. Reardon, CEO

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COVER STORY

TWO-TIER MARKETING

Increasingly, retailers are selling to "two Americas" divided along economic lines

page S2



Cover Story

82 TWO-TIER MARKETING

The time-tested strategy of focusing on the middle class no longer assures marketers of success. The polarization of income in the 1990s has led to a dramatic shift in the way consumer goods are designed, advertised, and sold. And companies that failed to recognize the split in the market have paid the price

90 BARGAINS AND \$2 CUPS OF COFFEE

The middle class goes hunting for deals—in its leather-trimmed 4x4s

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With 2,500 software patents, Big Blue figures Silicon Valley owes it some \$1 billion a year in royalties

36 OF MICE AND MICROSOFT

As the giant decides to develop its own Windows delivery technology, software maker Citrix may be left out in the cold

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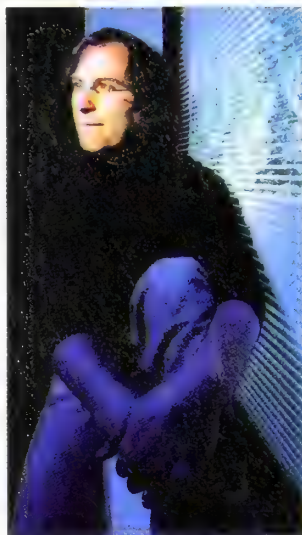
Europe's monetary union may hit snag, lots of older unwed moms in U.S., women storm the symphony



CASTRO'S CAPITALIST
Ian Delaney cleans up in Cuba page 48



WHO'S THE BOSS?
Jobs is back at Apple—but it's not to run it, he says page 116



HARD LINE
Pressure mounts to get tougher with China page 54

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Health-care inflation was only in remission

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THE RIGHT STUFF?
The challenge for Motorola's Chris Galvin page 102



LIFE AMONG THE BEARS
The funds have many recipes for disaster page 106

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Healthy spending by consumers is helping inventories tight and pricing pressures high

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ATOMY OF A BANKRUPTCY

There were lots of signs that TeleMedia was headed for disaster, but they were ignored

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Does Chris Galvin, the founder's grandson, have what it takes to reinvigorate the \$28 billion company?

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Donorgate and Corporate America
Taking politics out of trade missions

BUSINESS WEEK ONLINE: Internet: www.businessweek.com America Online: Keyword: BW

Up Front

EDITED BY LARRY LIGHT

GLASS CEILINGS

AN OLD BOYS' CLUB AT TREASURY

ALTHOUGH THE CLINTON Administration stresses diversity in its appointments, Treasury Secretary Robert Rubin's inner circle of advisers has become nearly an all-male club. Under Lloyd Bentsen, seven women political appointees held top policymaking posts in such areas as finance, taxes, economics, and international policy. Now, there are just two: Assistant Secretary Linda Robertson, the congressional lobbyist, and IRS Commissioner Margaret Richardson. But Richardson is leaving under prodding from Rubin.

Women have left for various reasons. Darcy Bradbury, assistant secretary for financial markets, went to Wall Street. Rubin aide-de-camp Sylvia Mathews moved to the White House, and General



RICHARDSON: Out at IRS

Counsel Jean Hanson was sucked under by Whitewater. Men replaced them. Treasury officials note women hold other top positions, such as Treasurer of the U.S.—yet they're not in policymaking jobs.

Not until recently, say Clinton insiders. "Rubin was an untouchable when it came to White House pressure on appointments," says one. "But the pressure has picked up." Rubin aides say he will soon name a woman as a senior policymaker. *Owen Ullmann*

PARIS: Let them eat Twinkies

are struggling, weighed down by high taxes, heavy

debts, and a lingering recession that has dented Europe's free-spending ways. Chefs such as Paris' Guy Savoy and Burgundy's Bernard Loiseau are adopting a host of new strategies to get more people to their tables. They are trying everything from discount meals to kids' menus.

One sign of the changing times is that Michelin recognition no longer assures financial success. Pierre Gagnaire, one of France's most creative chefs, received the coveted triple-star rating back in 1993, only to shock his fellow culinary artists by declaring bankruptcy last year at his restaurant in St. Etienne. *William Echikson*

TALK SHOW "All calls that I made were charged to the Democratic National Committee. I was advised there was nothing wrong with that."—Vice-President Al Gore, explaining why it was O.K. to solicit donations by phone from the White House

FIREBRANDS

RADICAL CHIC, 1997

FOR LOUIS FARRAKHAN, IT was a chance to meet the white power structure—100 national politicians and Wall Streeters. For supply-side guru Jude Wanniski, who admires Farrakhan's credo of black self-reliance, the meeting was part of a campaign to show that the Muslim minister is unjustly tarred as a racist and anti-Semite.

At a Boca Raton (Fla.) conclave held by Wanniski's Polyconomics consulting firm, Farrakhan spoke on restoring traditional values. He drew "sustained" applause, says Wanniski. One attendee, money manager Russell Re-



FARRAKHAN met Wall Streeters and pols

Cook & Bieler, says of Farrakhan: "He seems sincere."

How did the politicians take to him? Pressed for time, Jack Kemp—who was criticized last fall by Jewish groups after praising Farrakhan's self-help message—

gave a speech, then I without mingling. Sen. Christopher Dodd (D-Conn.) merely shook Farrakhan's hand. Even though the minister spoke to Bill Richardson from the audience, t

U.N. ambassador "had idea Farrakhan was there says an aide. After Sen. John Ashcroft (R-Mo.) dined with the cleric, he still felt Farrakhan is an anti-Semite. Farrakhan didn't respond to requests for comment.

URBAN ANGST

FOREIGN AID FOR WASHINGTON?

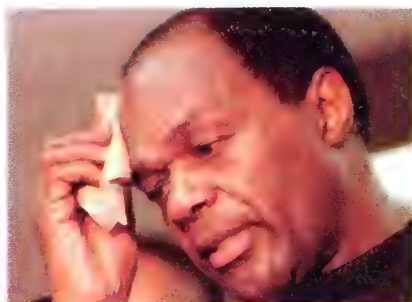
WASHINGTONIANS LIKE TO complain they suffer the typical woes of a Third World land, with dreadful services and infrastructure. So it's not surprising that the World

Bank, whose mission is to assist the poorest nations on earth, is considering whether to offer to help out.

The Bank could send its development experts to advise Mayor Marion Barry government, says a bank official. But the proposal is controversial within the bank with some asking why the

capital of the richest nation on earth needs its help. Bank officials fear a backlash from Congress if they commit scarce resources to Washington, the World Bank's home. City officials couldn't be reached for comment.

Paul Magnusso and Owen Ullmann



BARRY may get World Bank advice

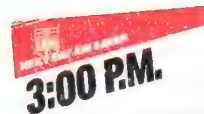


OVER THERE

FRENCH CUISINE: NO SO HAUTE

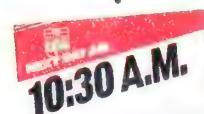
FOR YEARS, MOST OF FRANCE'S greatest chefs poured millions of francs into creating gastronomic wonders. Their goal was three stars in the august Michelin Guide. A precious third star boosted business by up to 40%, it was said. But these days, France's starred palaces

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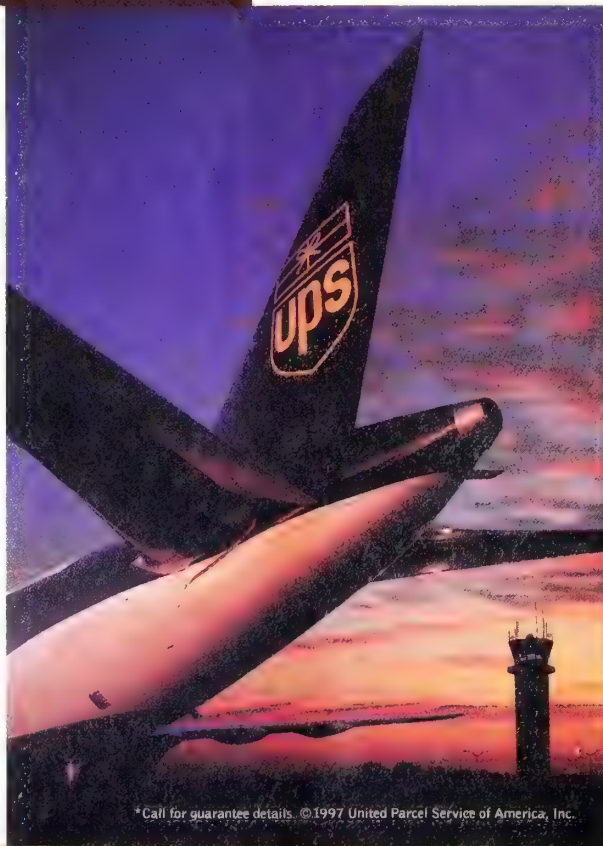


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Up Front

REALTY CHECK

WEDDING RITES FOR REITS



MERGER FEVER HAS COME TO real estate investment trusts. With REITS hot on Wall Street, volume grew from 14 deals in 1991 to 76 in 1996.

For 1997's first six weeks, six have been announced, with many more rumored on the way.

What's more, a Jan. 21 Internal Revenue Service ruling, made after a review that updated old merger regs, should increase the pace. The ruling makes it less cumbersome for REITS to merge through tax-free stock swaps, says Robert Willens of Lehman Brothers. The ruling will aid this year's biggest deal so far: Equity Residential Property's plan to

acquire Wellsford Residential Property Trust for \$620 million in stock. Equity, controlled by Chicago investor Sam Zell, is already the largest apartment REIT. The addition of Wellsford will bolster it in the Southwest and Pacific Northwest.

Apartment-REIT mergers are the most numerous, according to Alex. Brown analyst Cathy Creswell, partly because of the high demand for rentals now. Next come shopping-center REITS, even though this sector still suffers from vacancy problems, owing to overbuilding in the 1980s. In last year's largest deal (\$1.5 billion in stock), Simon Property Group combined with DeBartolo Realty to form the nation's biggest retail REIT, with 186 shopping centers in 33 states. □

NAME GAMES

REBEL WITHOUT A CONSENT CLAUSE

JAMES DEAN HAS TRIUMPHED in a Korean trademark fight. At least the late actor's cousins did. Under pressure from the Dean family and U.S. trade officials, the Korean Industrial Property Office has yanked three James Dean trademark registrations held by Joo-Byung Jin, a prominent Korean entertainer and businessman.

The KIPO ruled the trade-

marks invalid on the grounds that the brooding 1950s icon had no association with fancy underwear or cowboy hats—which Joo sells under the Dean brand in his Good People stores. Two years ago, the KIPO had brushed aside the family's complaint, saying Dean isn't famous in Korea, so there was no infringement. The earlier ruling shocked American officials be-



DEAN: Seoul mate?

cause Joo's James Dean apparel is wildly popular with Korean consumers.

The lawyer for the Dean heirs, Mark Roesler, has also filed a court action to pry an undetermined sum in royalties from Joo. Roesler also is suing two Korean department store chains, Hyundai and Galleria, seeking to stop them from selling Dean merchandise. The stores say

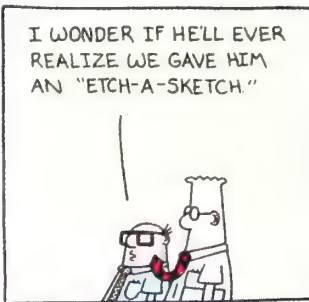
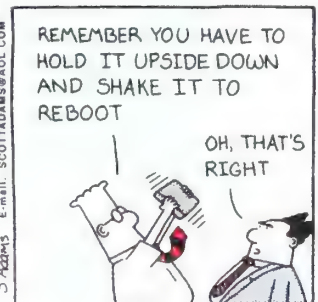
THE BIG PICTURE

ENRICHED SALES

Rising health consciousness has fanned interest in nutrient-enhanced products, such as Nabisco calcium-added Hawaiian Punch or General Mills' Total. Enthusiasm peaked in 1994, when a surfeit of new products appeared.



they will keep selling while Joo, who could not be reached for comment, appeals the ruling. Roesler says Joo has other Dean trademarks he will ask the KIPO to revoke. *Douglas Harbrecht and James Lin*



COMIC RELIEF

THE GREATEST DILBERT EVER TOLD

WITH DILBERT APPROACHING its eighth anniversary in April, we asked Scott Adams, creator of the hit comic,

which particular strip has been the most popular. His answer: the Etch-A-Sketch number (shown here). He can't back this up with the empiricism that his computer-geek hero might desire. But Adams observes that, during his public appearances, de-

voted fans almost always let him know what their favorite Dilbert is.

The success of *Dilbert*, which is now syndicated in 1,400 newspapers, turns on its lampooning of business culture. Adams has even codified a Dilbert Principle,

which he has made into best-selling book. The principle is: "The most ineffective workers are systematical moved to the place where they can do the least damage—management." Thank to this rebel spirit, Adams comic strips decorate myriads of cubicles throughout Corporate America.

To the cartoonist, once a cubicle dweller himself at Pacific Bell, the reason for Etch-A-Sketch's popularity is that "it's the most succinct expression of the Dilbert Principle." Showing the boss as a witless jerk, he says, "gives people on the bottom a lot of satisfaction."

FOOTNOTES Share of small businesses (with sales of \$1 million to \$50 million) that used outsourcing in 1996: 83%; 1993: 64%

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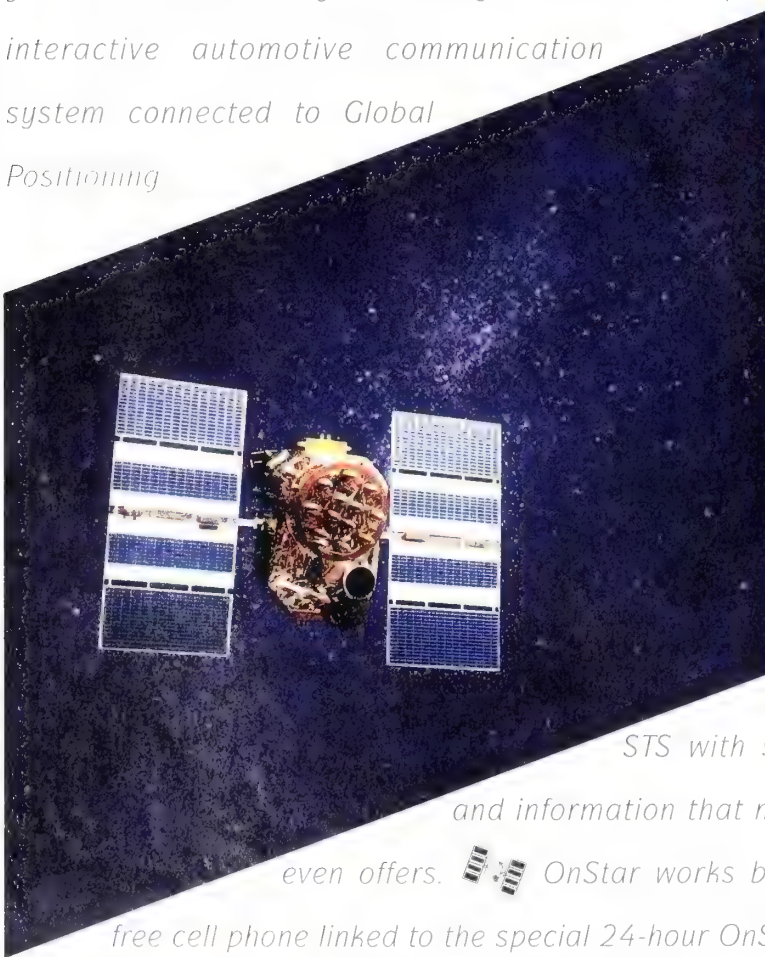
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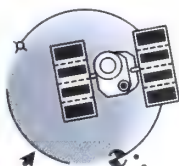


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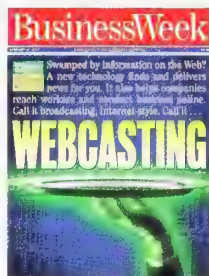
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WEBCASTING: A FEW TANGLES

I read "Webcasting" (Special Report, Feb. 24) with great interest. The arrival of webcasting raises a slew of questions: How does one value cafeteria-style information from a provider that scans, filters, and interprets information according to its own priorities and interests? When content is delivered without knowledge of context, is it information or junk? How much should one reveal to get customized information?

We live in a society in which statistics related to our living, eating, and traveling are monitored by marketers trying to customize the delivery of their wares. How comfortable should corporate managers and decision-makers be in handing their personal profiles to third parties?

Yogesh Malhotra
Pittsburgh



PRIVATE LIVES

"How comfortable should corporate managers and decision-makers be in handing their personal profiles to third parties?"

PointCast has been on my screen for more than six months now. As your report correctly points out, it works best in a corporate environment with a continuous network connection. Even so, there are problems.

For example, the use of the option that generates random automatic updates by PointCast can slow your computer significantly when you are in the middle of other programs, such as word processing, spreadsheet, or presentation software.

In addition, the content is a disk hog. Even with only a limited selection of channels, PointCast takes up as much as 24 megabytes on my hard drive. Lastly, the continually refreshed

CORRECTIONS & CLARIFICATIONS

A photo caption accompanying "For Asia's bad banks, it's pay-up time" (Finance, Feb. 24) erroneously said that Thailand's Sornprasong Land PLC defaulted on \$80 billion in Eurobonds. The correct figure, as noted in the text of the article, is \$80 million.

PointCast screensaver is hard on the disk drive.

So while your report is quite enamored of webcasting as an example of "push" technology, I prefer customized content at the click of a mouse.

Jack Nargundk
San Diego

While webcasting offers a wide selection of ad-supported "channels," generally follows the conventional cable-TV model. True breakthroughs will occur only when viewers and advertisers are matched for classified ads and want ads. Then, advertisers can tune from generic messages to timely and custom pitched knowing their money will be spent on targeted audiences.

The feasibility of balancing the push-pull dynamics of the Information Age is indeed the unique and defining feature of the Web.

James K. H
Professor of Information
& Decision Science
University of Illinois
Chicago

Webcasting is not about "push" technologies. Just go to pages such as www.audionet.com, and hear the true webcast of radio stations, breaking news, sporting events, concerts, and more to the point, business events.

Webcasting allows companies to use the Internet as a broadcast medium. Many companies are using AudioNet to broadcast shareholder meetings

Business Week

A Division of The McGraw-Hill Companies

MARCH 17, 1997 (ISSN 0007-7135) *** 3518

Published weekly, except for one issue combined with the May 1997 issue. Published by The McGraw-Hill Companies, Inc., 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: (212) 512-2000. Telex: DUNN 120000. Fax: (212) 512-2001.

Subscription prices: Single copies: \$5.00. Annual subscription: \$50.00. Two-year subscription: \$95.00. All prices include postage and handling charges. Payment in U.S. dollars only.

Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 518, Hightstown, N.J. 08520. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246841.

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CREDIT UNIONS AREN'T LOOKING FOR HANDOUTS

The American Bankers Assn.'s Donald Ogilvie is off base when he nominates credit unions for the corporate welfare hit list (Readers Report, Mar. 3).

People of modest means who belong to credit unions provide capital to help those still striving for a bigger slice of the pie. People helping people through cooperative arrangements does not make credit unions corporate welfare bums. Credit unions are not seeking special privileges from the government.

Robert Wayne
Manager Emeritus
Merced School Employees
Federal Credit Union
Merced, Calif.

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Books

RESURRECTION

The Struggle for a New Russia

By David Remnick

Random House • 398pp • \$25.95

HOW RUSSIA IS CLEARING AWAY THE RUBBLE

David Remnick calls his second book about Russia *Resurrection*. A more apt title might have been *Voices of Russia*. For, as he sets out to describe "the struggle for a definition of the new Russian state," Remnick lets political and business insiders explain what's happening in their own words. It's a technique the author employed to advantage in his earlier effort, *Lenin's Tomb: The Last Days of the Soviet Empire*, which won a 1994 Pulitzer Prize.

Beyond the painful transition and current chaos, Remnick sees a bright future. "The Russian prospect over the coming years and decades is more promising than ever before in its history," he says. "Russia has entered the world, and everything, even freedom, even happiness, is now possible."

But it takes Russian insight to understand many of the current events. So, through the author's tape recorder, we hear Sergei Stankevich, a political adviser to President Boris Yeltsin, explain why Russians will carve out a "third way" of development, neither capitalist nor socialist. Human rights activist Sergei Kovalyov describes why many Russians vote for nationalists such as Vladimir Zhirinovsky: "We are a Third World country, and everybody knows it... and so they try to imagine a great past and make of it a new politics." Zhirinovsky, whose Liberal Democratic Party hit its peak in the December, 1993, parliamentary elections, complains that ex-General Alexander Lebed "stole my act, and he stole my votes." Yeltsin campaign workers narrate how, during the 1996 presidential election, the Yeltsin team funneled

money to Lebed to draw votes away from Communist candidate Gennadi Zyuganov.

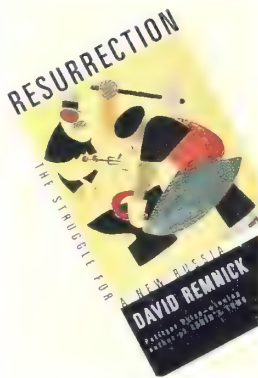
But Remnick, a staff writer at *The New Yorker*, doesn't just spill his tape transcripts into the book. He captures the speakers' personalities with vivid descriptions. Anatoly Lukyanov, leader of the failed coup of 1991 who won a seat in Parliament after he was released from prison, "greeted me the way a fighter greets his opponent in the center of the ring. He thrust out his chest and stared hard. Radical reformer Yegor Gaidar "came across on television as the overfed academic, the code technocrat."

Remnick's eye for detail and descriptive power would be the envy of any writer. At Moscow's Commercial Club, where he is staking out banker and media mogul Vladimir Gusinsky, Remnick watches the *nouveaux riches* at play

"Near the drinks table, a very rich man stood with his very tall, very young girlfriend, saying nothing. She wore a skirt not much wider than a belt and smoked a cigarette that looked like a needle. She seemed cubist and dangerous: dominatrix of the duty-free shopping binge. No one bothered to stare."

It was this gift for eyewitness narrative that made *Lenin's Tomb* a best seller. And it makes this book a good read, even though *Resurrection* is not as vivid or gripping as the previous volume. Granted, Russian history from 1992 to 1996, the period he writes about here, is not as dramatic as was the 1991 collapse of the Soviet Union.

There's also a lack of immediacy, because Remnick hasn't lived in Russia for the past five years. He spends too



RUSSIA'S FUTURE SEEMS HIGHLY PROMISING, REMNICK BELIEVES

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TOENAIL WITH FUNGUS

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For information on the use of SPORANOX in the treatment of systemic fungal infections, see the following sections:

WARNING: Concomitant administration of itraconazole with astemizole is contraindicated. Serious cardiovascular adverse events including arrhythmias and sudden cardiac death have been reported in patients taking itraconazole concomitantly with astemizole. The combination of itraconazole and astemizole should be avoided. See BOX WARNING, CONTRAINDICATIONS, WARNINGS, and PRECAUTIONS sections.

Another oral azole antifungal, ketoconazole, inhibits the metabolism of astemizole, resulting in elevated plasma concentrations of astemizole. Concomitant administration of itraconazole and ketoconazole is contraindicated. See CONTRAINDICATIONS, WARNINGS, and PRECAUTIONS sections.

Coadministration of cisapride with itraconazole is contraindicated. Serious cardiovascular adverse events including death, ventricular tachycardia, and torsades de pointes have occurred in patients taking itraconazole concomitantly with cisapride. See CONTRAINDICATIONS, WARNINGS, and PRECAUTIONS sections.

INDICATIONS AND USAGE

SPORANOX (itraconazole capsules) is indicated for the treatment of systemic fungal infections in immunocompromised patients.

- 1 Blastomycosis, pulmonary and extrapulmonary.
- 2 Histoplasmosis, including chronic cavitary pulmonary disease and disseminated, non-meningeal histoplasmosis.
- 3 Aspergillosis, pulmonary and extrapulmonary, in patients who are intolerant of or who are refractory to amphotericin B therapy, and
- 4 Onychomycosis due to dermatophytes (trichophyton) of the toenail with or without lingual involvement.

CONTRAINDICATIONS

Concomitant administration of SPORANOX with oral triazolam or with oral midazolam is contraindicated. (See PRECAUTIONS section.)

SPORANOX should not be administered for the treatment of onychomycosis to pregnant patients or to women contemplating pregnancy.

Hypersensitivity between itraconazole and other azole antifungal agents. Caution should be used in prescribing SPORANOX to patients with hypersensitivity to other azoles.

WARNINGS

In U.S. clinical trials prior to marketing, there have been three cases of reversible idiosyncratic hepatitis reported among more than 2500 patients taking SPORANOX (itraconazole capsules). One patient outside the U.S. developed fulminant hepatitis and died during SPORANOX administration. Since this patient was on multiple medications, the causal association with SPORANOX is uncertain. If clinical signs and symptoms consistent with liver disease develop that may be attributable to itraconazole, SPORANOX should be discontinued.

Prior to U.S. marketing, there have been three cases of liver-threatening cardiac dysrhythmias and one death reported in patients receiving terfenadine and itraconazole. (See BOX WARNING, CONTRAINDICATIONS, and PRECAUTIONS sections.)

Coadministration of astemizole with SPORANOX is contraindicated. (See BOX WARNING, CONTRAINDICATIONS, and PRECAUTIONS sections.)

Concomitant administration of oral ketoconazole with cisapride has resulted in markedly elevated cisapride plasma concentrations, prolonged QT intervals, and has rarely been associated with ventricular arrhythmias and torsades de pointes. Due to potent *in vitro* inhibition of the hepatic enzyme system mainly responsible for the metabolism of cisapride (cytochrome P450 3A4), itraconazole is also expected to markedly raise cisapride plasma concentrations; therefore, concomitant use of cisapride with SPORANOX is contraindicated. (See BOX WARNING, CONTRAINDICATIONS, and PRECAUTIONS sections.)

PRECAUTIONS

General. Hepatic enzyme test values should be monitored in patients with preexisting hepatic function abnormalities. Hepatic enzyme test values should be monitored periodically in all patients receiving continuing treatment for more than one month or at any time a patient develops signs or symptoms suggestive of liver dysfunction.

SPORANOX (itraconazole capsules) should be administered after a full meal.

Under fasted conditions, itraconazole absorption was decreased in the presence of decreased gastric acidity. The absorption of itraconazole may be decreased in patients with decreased gastric acidity.

It has been demonstrated that administration with 8 ounces of a cola beverage resulted in increased absorption of itraconazole in AIDS patients with relative or absolute achlorhydria. This increase relative to the effects of a full meal is unknown.

Patients should be instructed to report any signs and symptoms that may suggest liver dysfunction so that the appropriate laboratory testing can be done. Such signs and symptoms may include unusual fatigue, anorexia, nausea and/or vomiting, jaundice, dark urine or pale stool.

Drug Interactions. Both itraconazole and its major metabolite, hydroxyitraconazole, are inhibitors of the cytochrome P450 3A4 enzyme system.

Coadministration of SPORANOX and drugs primarily metabolized by the cytochrome P450 3A4 enzyme system may result in increased plasma concentrations of the drugs that could increase or prolong both therapeutic and adverse effects. Therefore, unless otherwise specified, appropriate dosage adjustments may be necessary.

Coadministration of SPORANOX has led to elevated plasma concentrations of terfenadine, resulting in rare instances of life-threatening cardiac dysrhythmias and one death. (See BOX WARNING, CONTRAINDICATIONS, and WARNINGS sections.)

Another oral azole antifungal, ketoconazole, inhibits the metabolism of astemizole, resulting in elevated plasma concentrations of astemizole and its active metabolite desmethylastemizole which may prolong QT intervals. *In vitro* data suggest that itraconazole, when compared to ketoconazole, has a less pronounced effect on the biotransformation system responsible for the metabolism of astemizole. Based on the chemical resemblance of itraconazole and ketoconazole, coadministration of astemizole with itraconazole is contraindicated. (See BOX WARNING, CONTRAINDICATIONS, and WARNINGS sections.)

Human pharmacokinetics data indicate that oral ketoconazole potentially inhibits the metabolism of cisapride resulting in an eight-fold increase in the mean AUC of cisapride. Data suggest that coadministration of oral ketoconazole and cisapride can result in prolongation of the QT interval on the ECG. *In vitro* data suggest that itraconazole also markedly inhibits the biotransformation system mainly responsible for the metabolism of cisapride; therefore concomitant administration of SPORANOX with cisapride is contraindicated. (See BOX WARNING, CONTRAINDICATIONS, and WARNINGS sections.)

Coadministration of SPORANOX with oral midazolam or triazolam has resulted in elevated plasma concentrations of the latter two drugs. This may potentiate and prolong hypnotic and sedative effects. These agents should not be used in patients treated with SPORANOX. If midazolam is administered parenterally, special precautions are required since the sedative effect may be prolonged. (See CONTRAINDICATIONS section.)

Coadministration of SPORANOX and cyclosporine, tacrolimus or digoxin has led to increased plasma concentrations of the latter three drugs. Cyclosporine, tacrolimus and digoxin concentrations should be monitored at the initiation of SPORANOX therapy and frequently thereafter, and the dose of these three drug products adjusted appropriately.

There have been rare reports of rhabdomyolysis involving renal transplant patients receiving the combination of SPORANOX, cyclosporine, and the HMG-CoA reductase inhibitors lovastatin or simvastatin. Rhabdomyolysis has been observed in patients receiving HMG-CoA reductase inhibitors administered alone at recommended dosages or concomitantly with immunosuppressive drugs including cyclosporine.

When SPORANOX was coadministered with phenytoin, triazolam, or H₂ antagonists, reduced plasma concentrations of itraconazole were reported. The physician is advised to monitor the plasma concentrations of itraconazole when any of these drugs is taken concurrently, and to increase the dose of SPORANOX if necessary. Although no studies have been conducted, concomitant administration of SPORANOX and phenytoin may alter the metabolism of phenytoin; therefore plasma concentrations of phenytoin should also be monitored when it is given concurrently with SPORANOX.

It has been reported that SPORANOX enhances the anticoagulant effect of coumarin-like drugs. Therefore, prothrombin time should be carefully monitored in patients receiving SPORANOX and coumarin-like drugs simultaneously.

Plasma concentrations of azole antifungal agents are reduced when given concurrently with isoniazid. Itraconazole plasma concentrations should be monitored when SPORANOX and isoniazid are coadministered.

Severe hypoglycemia has been reported in patients concomitantly receiving azole antifungal agents and oral hypoglycemic agents. Blood glucose concentrations should be carefully monitored when SPORANOX and oral hypoglycemic agents are coadministered.

Lemmas and decreased hearing have been reported in patients concomitantly receiving SPORANOX and quinine. Edema has been reported in patients concomitantly receiving SPORANOX and dihydropyridine calcium channel blockers. Appropriate dosage adjustments may be necessary.

The results from a study in which eight HIV-infected individuals were treated with zidovudine, 8 ± 0.4 mg/kg/day, showed that the pharmacokinetics of zidovudine were not affected during concomitant administration of SPORANOX, 100 mg b.i.d.

Reproductive and Impairment of Fertility. Itraconazole showed no evidence of carcinogenicity potential in mice treated orally for 2 months at dosage levels up to 80 mg/kg/day (approximately 1/10 the maximum recommended human dose (MRHD)). Male rats treated with 2 mg/kg/day (1/10 MRHD) had a slightly increased incidence of soft tissue sarcoma. These sarcomas may have been a consequence of

hypercholesterolemia which is a response of rats, but not dogs or humans, to chronic itraconazole administration. Female rats treated with

5 mg/kg/day (1/20 MRHD) had an increased incidence of squamous cell carcinoma of the lung (2/50) as compared to the untreated controls. Although the occurrence of squamous cell carcinoma in the lung is extremely uncommon in untreated rats, the increase in this study was statistically significant.

Itraconazole produced no mutagenic effects when assayed in appropriate bacterial, non-mammalian and mammalian test systems.

Itraconazole did not affect the fertility of male or female rats treated orally with dosage levels of up to 40 mg/kg/day (5x MRHD) even at parental toxicity was present at this dosage level. More severe signs of parental toxicity, including death, were present in the next high level, 160 mg/kg/day (20x MRHD).

Pregnancy. Teratogenic Effects. Pregnancy Category C: Itraconazole was found to cause a dose-related increase in maternal embryotoxicity and teratogenicity in rats at dosage levels of approximately 40-160 mg/kg/day (5-20x MRHD) and in mice at dosage levels of approximately 80 mg/kg/day (10x MRHD). In rats, the teratogenicity consisted of major skeletal defects; in mice it consisted of encephalocele and/or macroglossia.

There are no studies in pregnant women. SPORANOX should be used for the treatment of systemic fungal infections in pregnancy or in lactating women only if the potential benefits outweigh the potential risks. SPORANOX should not be administered for the treatment of onychomycosis to pregnant patients. Women contemplating pregnancy SPORANOX should not be administered to women of child-bearing potential for the treatment of onychomycosis unless they are taking effective measures to prevent pregnancy and the patient begins therapy on the second or third day of the next normal menstrual period. Effective contraception should be continued throughout SPORANOX therapy and for 2 months after treatment.

Nursing Mothers. Itraconazole is excreted in human milk; therefore, SPORANOX should not be administered to nursing women.

Pediatric Use. The efficacy and safety of SPORANOX have not been established in pediatric patients. No pharmacokinetic data are available in children. A small number of patients age 3 to 16 years have been treated with 100 mg/day of itraconazole for systemic fungal infection. Serious unexpected adverse effects have been reported.

In three toxicology studies using rats, itraconazole induced bone defects at dosage levels as low as 20 mg/kg/day (2.5x MRHD). The defects included reduced bone plate activity, thinning of the zona compacta of the large bones and increased bone fragility. At a dosage level of 160 mg/kg/day (20x MRHD) over one year or 160 mg/kg/day (20x MRHD) for six months, itraconazole induced small tooth pulp with hypoplasia in some rats.

While no such bone toxicity has been reported in adult patients, the long term effect of itraconazole in pediatric patients is unknown.

HIV-infected Patients. Because hypochlorhydria has been reported in HIV-infected individuals, the absorption of itraconazole in these patients may be decreased.

The results from a study in which eight HIV-infected individuals were treated with zidovudine, 8 ± 0.4 mg/kg/day, showed pharmacokinetics of zidovudine were not affected during concomitant administration of SPORANOX, 100 mg b.i.d.

ADVERSE REACTIONS

In U.S. clinical trials prior to marketing, there have been three cases of reversible idiosyncratic hepatitis reported among more than 2500 patients taking SPORANOX (itraconazole capsules). One patient outside the U.S. developed fulminant hepatitis and died during SPORANOX (itraconazole capsules) administration. Both patients were on multiple medications; the causal association with SPORANOX is uncertain. (See WARNINGS section.)

ONCHOMYCOSIS

Adverse events in the following table led to either temporary or permanent discontinuation of treatment.

Body System	Adverse Event	Incidence (%) (n=112)
Elevated Liver Enzymes	>2x normal range	4
Gastrointestinal Disorders		3
Rash		3
Hypertension		2
Orthostatic Hypotension		1
Headache		1
Malaise		1
Myalgia		1
Vasculitis		1
Vertigo		1

SYSTEMIC FUNGAL INFECTIONS

Adverse experience data in the following table are derived from 602 patients treated for systemic fungal disease in U.S. clinical trials, with immunocompromised or receiving multiple concomitant medications. Of these patients, treatment was discontinued in 10.5% of patients adverse events. The median duration before discontinuation of therapy was 81 days, with a range of 2-776 days. The table lists adverse events reported by at least 1% of patients.

Body System	Adverse Event	Incidence (%) (n=112)
Gastrointestinal Disorders		
Nausea		1.6
Vomiting		1.5
Diarrhea		1.3
Abdominal Pain		1.3
Anorexia		1.2
Body System Disorders		
Edema		1.5
Fatigue		1.3
Fever		1.3
Malaise		1.2
Skin and Appendages		
Rash		1.6
Pruritus		1.3
Central and Peripheral Nervous System		
Headache		1.3
Dizziness		1.3
Psychiatric Disorders		
Lethargy		1.2
Somnolence		1.2
Cardiovascular Disorders		
Hypertension		1.2
Metabolic and Nutritional Disorders		
Hypokalemia		1.2
Urinary System Disorders		
Albuminuria		1.2
Liver and Biliary System Disorders		
Hepatic function abnormal		1.2
Reproductive Disorders, Male		
Impotence		1.2

*Rash tends to occur more frequently in immunocompromised patients receiving immunosuppressive medications.

Adverse events infrequently reported in all studies included constipation, gastritis, depression, insomnia, tinnitus, menstrual disorder, a myelocystitis, gynecomastritis and male breast pain.

In worldwide postmarketing experience with SPORANOX, allergic reactions including rash, pruritus, urticaria, angioedema and in rare instances anaphylaxis and Stevens-Johnson syndrome, have been reported. Marketing experiences have also included reports of elevated liver enzyme rare hepatitis. Although the causal association with SPORANOX is uncertain, rare hypertriglyceridemia and isolated cases of neuropathy have been reported.

OVERDOSAGE

Itraconazole is not removed by dialysis. In the event of accidental overdosage, supportive measures, including gastric lavage with sodium bicarbonate, should be employed.

No significant lethality was observed when itraconazole was administered orally to mice and rats at dosage levels of 320 mg/kg or to dogs at 160 mg/kg.

Rev. April 1995, September 1995

world leader in antifungal research

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time on figures such as Mikhail Gorbachev and once-exiled writer Alexander Solzhenitsyn, who have had substantial influence recently. The author also relies too heavily on outdated sources—such as Gorbachev adviser Alexander Yakovlev—who were accused during his 1988-91 stint as a Moscow correspondent for *The Washington Post*. And even though it's clear Remnick traveled to Chechnya to see her color for the book, he wasn't there during any of the key events of the region's savage war.

The best chapters are those where Remnick has done his own reporting rather than rely on other journalists' accounts. Interviews with Gusinsky and other campaign insiders make the chapter on the 1996 presidential election as suspenseful as any in *Lenin's Tomb*. He sees how close Yeltsin came to losing the election and how he won through a heavy-handed media campaign managed by Igor Malashenko, head of the purportedly independent television station NTV. "Yeltsin plays his only when he can win," Remnick quotes Moscow journalist Leonid Zhidkovsky as saying. "He always has a fifth ace up his sleeve. Otherwise he'll take out the Smith & Wesson and start firing. In the election, Malashenko played the role of the fifth ace."

Earlier chapters discuss how Yeltsin transmogrified from a reformist democrat to an often-drunk bully who was willing to use force against opponents in Moscow and Chechnya. Remnick also relates the rise and decline of Zhirinsky and Zyuganov. One wishes he had spent more time analyzing Lebed, who is now Russia's most popular politician. But such developments are admittedly hard to predict. As Remnick notes: "Change came so quickly in modern Russia that a few years marks an epoch."

The speed of change makes analyzing Russia a difficult task indeed. But *Resurrection* is a good primer for both the onchair historian and the diehard gossipophile. Although Remnick doesn't break any new ground, he certainly shows how to compose a story. Vladimir Putin, a 38-year-old Moscow writer, is the author: "For me, this is one of those times in Russia when real life is even more vivid than literature." Remnick's capable treatment delivers much of the daily drama in a highly compelling fashion.

BY PATRICIA KRANZ

Kranz is *BUSINESS WEEK's* Moscow bureau chief.

BY BUSINESS WEEK COLUMNISTS

THE CAPITALIST REVOLUTION IN LATIN AMERICA

By Paul Craig Roberts and Karen LaFollette Araujo
Oxford • 214pp • \$25

LATIN LESSON

It was no small feat for countries such as Chile, Argentina, and Mexico to cast aside protectionist, statist legacies and embrace free trade and market competition. But those reforms have proved durable. The reason is that Latin Americans realize that yesterday's

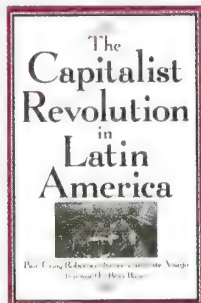
solutions—state intervention in the economy, relaxation of monetary policy to stimulate consumption—no longer work.

That's the theme of *The*

Capitalist Revolution in Latin America, by *BUSINESS WEEK* columnist Paul Craig Roberts, chairman of the Institute for Political Economy in Washington, and research fellow Karen LaFollette Araujo.

The authors focus largely on changes in Chile, Argentina, and Mexico. They argue that wrenching economic crises made those societies ready for dramatic experiment. That allowed Chile, for example, to lead the way with such programs as privatization of social security. Argentina discarded Peronist statism and even privatized the oil company. Mexico not only balanced its budget and sold off more than 1,000 state-run companies, it overcame a centuries-old mistrust of the U.S. and inked a free trade accord with it.

Single-minded pursuit of reform is less feasible in Latin America's new democracies, where leaders must strike a balance between pain and gain, than under dictatorships, the authors argue. Another obstacle is widespread corruption, which continues to drain off the vital resources needed to raise standards of living.



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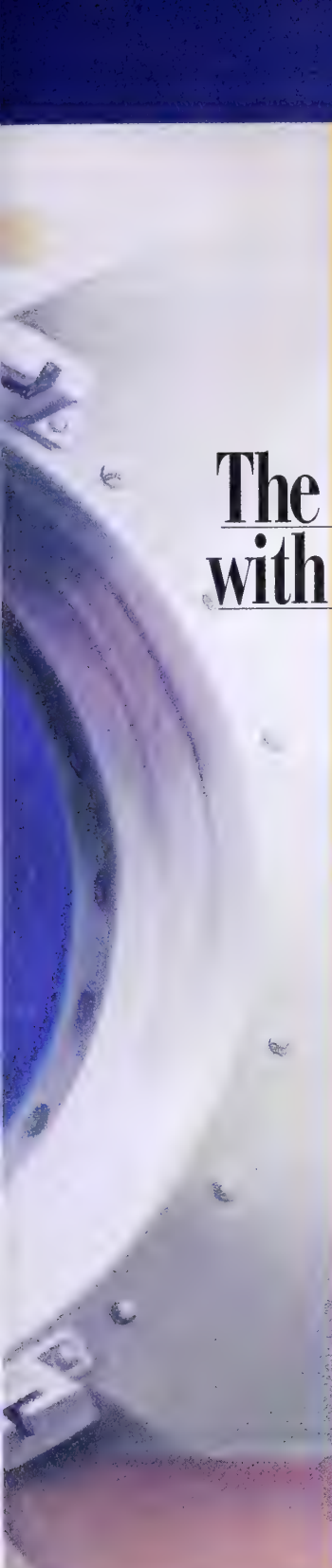


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BY STEPHEN H. WILDSTROM

THE LAPTOP LABYRINTH

They're getting fancier—but heavier. So figure out just how much zip you need

I'm writing this column on a TransPort Xpe laptop from Micron Electronics while flying to California. With a 166-megahertz MMX Pentium processor, 32 megabytes of memory, and a 2-gigabyte hard drive, this laptop offers all the performance, and nearly all the features, I would ever want in a desktop computer. But there's a problem. When the fellow sitting in front of me leans back, the 12.1-inch active matrix screen has nowhere to go, and typing becomes nearly impossible.

That's the paradox of computing on the go. Laptop machines have, at least for the moment, closed the performance gap that has kept them about a generation behind desktops. But these not-so-portables are bigger, heavier, harder on batteries, and a good deal less mobile. Fortunately, Toshiba, IBM, Compaq, and others have a varied lineup that enables you to select the one that best fits your needs.

The standard display on high-end laptops today measures 12.1 inches diagonally. Models with 13.3-in. displays are hitting the market, with 14.1-in. briefcase-busters due by midyear. While big screens are easier to read, don't expect to use these on planes. And with the screens and lots of memory draining power, don't expect more than about two hours from a battery.

At the same time, the desirability of using your laptop

in the office is diminishing, especially in networked corporations. Many companies are shifting to the Windows NT operating system and the Pentium Pro processor for more secure and reliable desktop performance. Unlike Windows 95, NT is not designed for mobile use and lacks critical elements, such as battery-saving features. And Intel has not announced a mobile version of the hot-running, power-hungry Pentium Pro. In coming months, even state-of-the-art notebooks will lag behind desktops in the power race.

DOCK IT. So what's the road warrior to do? If you need one that can do it all, you will have to sac-

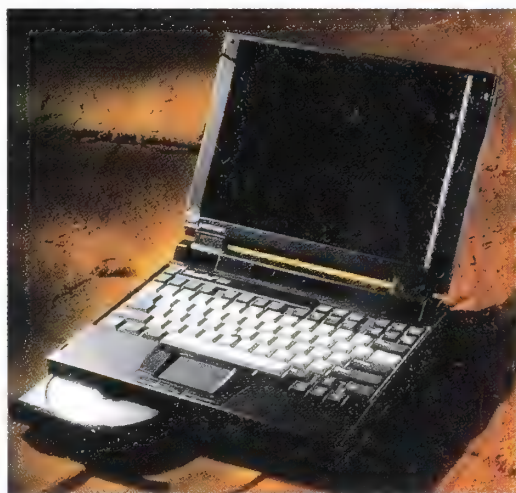
standard keyboard. Micron, for example, features a \$299 dock that includes bigger speakers and a local area network connection. The travel weight of a laptop like this will surpass 8 pounds. And laptops remain much more expensive than desktops: A Toshiba Tecra 740 CDT with a 13.1-in. display costs more than \$6,500.

Maybe both your needs and your budget are a bit more modest. The good news is that some relatively small sacrifices will get you a competent notebook at a much lower price. For example, an 11.3-in. passive-matrix display is adequate

PowerBook 1400, which starts at \$2,500, and the 340 starting at about \$4,500.

If you spend most of your time in the office and don't need the ultimate laptop, you might consider a different approach. For less than \$2,500 you can get a loaded 200-MHz MMX Pentium desktop. For the road, choose what manufacturers call a "value-line" notebook, an apt phrase, in some cases. For example, the NEC Versa 2600 offers a 133-MHz Pentium, 12.1-in. passive matrix display, built-in floppy and CD-ROM drives, and a 33.6-kilobit per second modem for \$2,400. At these prices, you may be able to persuade your boss, or yourself, that two computers can be a better buy than one high-end laptop.

Finally, if you want to stay connected on the road but your mobile computing needs are slight, you soon may be able to eschew a laptop altogether. The new Windows CE handhelds, such as the NEC MobilePro and the Compaq PC Companion, can han-



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ribose some portability and go with a high-end portable and a spare battery or two. To avoid having to plug in a keyboard, mouse, network cable, and monitor for office duty, you will probably want some sort of setup to slide your laptop into, such as a docking port connected to a monitor, network, and stan-

for most users, even if you use your laptop for presentations. So is a 133-MHz Pentium, although I would recommend at least a 1.4-gigabyte hard drive and 16—preferably 32—megabytes of RAM. That setup should give two to three hours off a battery. From my experience, if you can keep the weight under

7 lb., your shoulders and back will thank you.

Just about every notebook manufacturer has a model that meets those specifications, and prices generally run about \$3,500. Macintosh users, who have been bereft of serviceable laptops for many months, now have a choice between the new

dle limited word processing and spreadsheet duties. They suffer from small (about 5 in. diagonal), dim screens and very limited E-mail capabilities, but improved versions are on the way. And the popular Palm Pilot from U.S. Robotics will soon gain the ability to fetch E-mail over phone lines.

The mobile situation is confusing, but in large part that's because consumers have a far broader range of options than they have had. Making the right choice means making a dispassionate assessment of your needs and budget and going for the model that will best fit both. Your choice may not be the latest and greatest, but it may place much less of a burden on both your shoulder and your wallet.

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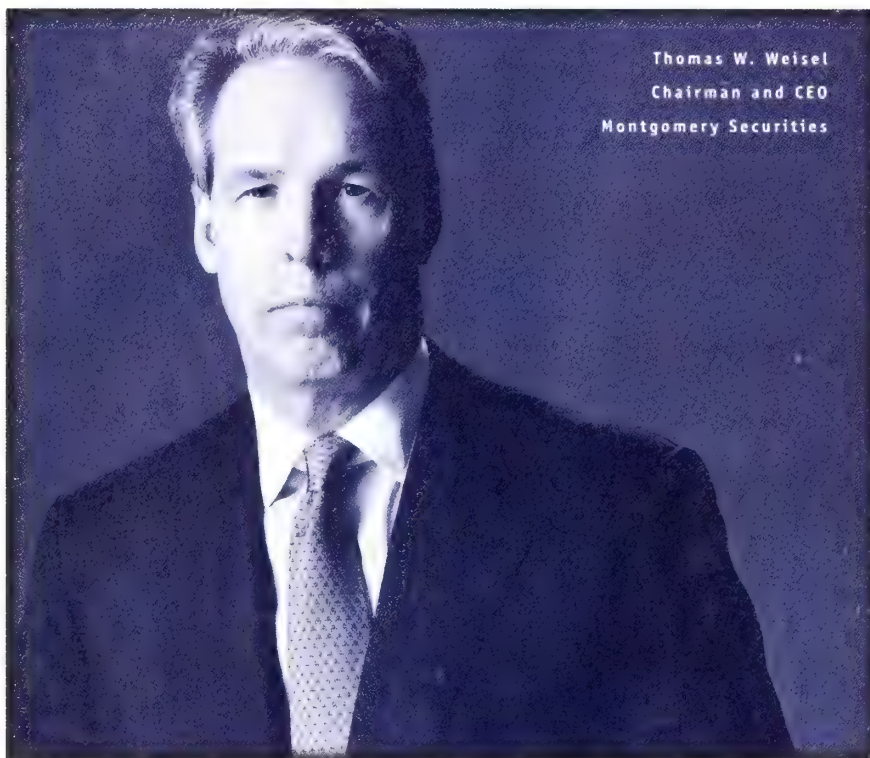
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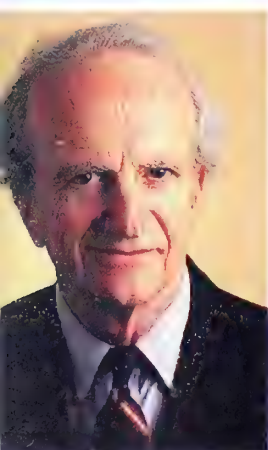
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GARY S. BECKER

JOB MARKETS: EUROPE DOESN'T HAVE ANYTHING TO BOAST ABOUT



CRISIS:
Europe, Britain
and the U.S.
have wider
age gaps,
but more
and more
Europeans
can't find jobs
at all

Europeans have defended their highly regulated and overtaxed labor markets by claiming that they produce less inequality in wages than the more free-market practices in the U.S. and Britain. They emphasize that since the late 1970s, salary rates in America and Britain for the better-educated and more skilled have climbed sharply relative to those of other workers. By contrast, the skilled-unskilled wage disparity only increased modestly in Germany, France, and most other Western European countries.

But many European nations experienced a distressing change during the late 1980s and the 1990s on the employment front: The number of persons without jobs expanded greatly. In effect, European labor markets divide workers into "insiders" and "outsiders." The insiders have jobs and are typically members of powerful trade unions. Their employment is protected by seniority, union rules, and by government regulations that limit layoffs. Because they face little competition from new entrants into the labor force or from others looking for work, wages of both skilled and unskilled insiders have risen over time at a good pace.

SKYROCKET. Outsiders, on the other hand, cannot easily get good jobs, so their incomes come mainly from Social Security and other welfare programs that are increasingly in financial trouble. Outsiders include the unemployed and persons who exit from the labor force either because they despair of finding work or are induced to leave by enticements such as generous retirement and disability benefits.

In the late 1970s, unemployment rates in most of Western Europe were below those in the U.S. While American rates have generally remained between 5% and 7%, and British rates have come down, European unemployment increased during the 1980s and skyrocketed in the 1990s. Over 11% of the labor force in the European Union is out of work. Germany, the most powerful nation there, now has a rate in excess of 12%—the highest number of unemployed since the Hitler period.

The European unemployment burden is not distributed evenly among economic and demographic groups. It bears down most heavily on the backs of the young, the less educated, and women. Hardest hit are Muslim

and Catholic minorities from North Africa, Turkey, and Eastern Europe. Nor is the burden short-lived: More than 30% of the unemployed have been without jobs for over a year.

The soaring number of long-term unemployed is only one dimension of the job crisis, since many Europeans have abandoned the labor force. Yet the U.S. economy has continued to add employment opportunities at a remarkable rate since the early 1980s, with nearly two-thirds of Americans over age 15 finding work. By contrast, in France, only 55% of persons in these age groups have jobs; in Germany, less than 58%. And the employment picture is still more dismal in Italy, Spain, Sweden, and several other nations in Europe.

DETERIORATING. Even the rather meager rise in European employment during the past 20 years has been artificial because the number of jobs in the private sector has hardly increased. Employment has been added mainly in government-owned industries and other state sectors that are notoriously overmanned. In the U.S. and Britain, practically all the employment growth has been in private companies, especially startups.

The situation may continue to deteriorate as Europe struggles to reduce government budgetary deficits before 1999 to the under-3% level required by the Maastricht Treaty. This may be largely accomplished by creative accounting, but there is pressure to cut staffs in the many state-run enterprises that are losing money.

In light of these trends that differentiate the relatively good fortunes of insiders from the dismal prospects of growing numbers of outsiders, it is inappropriate to call European labor markets more fair than U.S. and British markets. Measures of equity and inequality that consider both the low earnings and harmful psychological effects from not being able to find employment would rank Europe much lower than the more open and less regulated U.S. and British markets.

German Chancellor Helmut Kohl and other leading European politicians speak frequently about the necessity of raising employment. But Europe will be unable to provide many new jobs in the private sector until it levels the playing field by reducing the heavy tax and regulatory burden that is discouraging companies from adding employees.

Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution

BY GENE KORETZ

A THREAT TO MONETARY UNION?

Europe's joblessness may be a snag

One of the most puzzling developments in recent decades has been Europe's failure to generate jobs and reduce unemployment at a time when America's job performance has been strong. Whereas Europe's joblessness rates in the 1960s and 1970s were consistently below those of the U.S., the opposite has been true in the 1980s and 1990s—and recently by a widening margin.

Since 1979, the U.S. economy has managed to create an eye-popping total of 30 million jobs. It has also lowered

job growth has been impeded by such policies as high minimum wages and payroll taxes, restrictions on firing, and generous social benefits (page 23).

The three economists don't reject these explanations. But they note that restructuring in the U.S., which began in the 1980s, has had the benefit of stimulative macroeconomic policies during much of the past decade and a half.

Short-term interest rates, for example, trended down in the U.S. in much of the 1980s and early 1990s. And U.S. fiscal policy was highly stimulative through the mid-1980s. By contrast, European monetary and fiscal policy has been far more restrictive. Indeed, the researchers estimate that Europe's unemployment rate would have been as much as 1½ percentage points lower in recent years if demand growth had matched that of the U.S. in the 1980s and early 1990s.

All of this points to a catch-22 in current European economic strategy. To join the planned European Monetary Union, governments are pursuing tight fiscal and monetary policies. They are also trying to promote job growth through benefit cuts and reforms that enhance labor market flexibility.

The problem is that such reforms are unlikely to succeed or prove politically feasible in the absence of favorable macroeconomic policies. And unless they succeed—and bring lower deficits—European nations are unlikely to meet the fiscal criteria established for EMU membership. Indeed, speculation is rife that Germany will opt for a delay in the starting time for monetary union because rising joblessness threatens to push its own deficit out of bounds.

LOTS OF OLDER UNWED MOMS

The intriguing question they raise

With nearly one out of every three U.S. births occurring outside of marriage, a common perception is that such births are primarily a teenage phenomenon. But as sociologists Daphne Spain and Suzanne M. Bianchi note in a book just published by the Russell Sage Foundation, teens account for only 30% of nonmarital births today, compared with 50% in 1970. Indeed, birthrates for unmarried women of all ages and races are up sharply since 1980.

The trend, say the authors, raises an intriguing question: To what extent does it reflect a growing ability of women to

live independently, and to what extent is it occurring because men feel they can no longer afford to marry the mothers of their children?

WOMEN STORM THE SYMPHONY

How blind auditions cut gender bias

In part because it's hard to assess the motives of employers, the existence of sex-based discrimination is often a tricky business to prove. Things would be easier if one could compare hiring outcomes when a female applicant's sex is known with outcomes when her sex is unknown—and only her qualifications for the job are judged.

As it happens, just such a change occurred in the hiring practices of U.S. symphony orchestras over the past few decades. Starting in the 1970s, report Claudia Goldin of Harvard University and Cecilia Rouse of Princeton University, symphonies began to implement major revisions in their audition procedures for job applicants—including the use of "screens" to prevent audition committees from actually seeing the musician whose playing they were evaluating. At the same time, the share of fe-

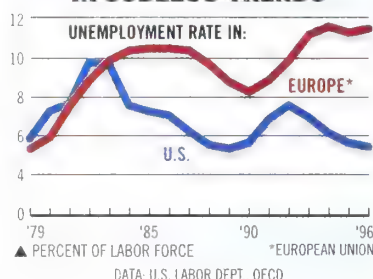


SECOND FIDDLE? Merit matters more

male musicians in the top five American orchestras has grown from less than 5% in 1970 to 25% today.

By analyzing data from actual auditions from the late 1950s through 1995 and changes in orchestra hiring patterns in the wake of "blind" auditions, the two economists were able to assess the degree to which such procedures have reduced gender discrimination. They find that the use of screens in preliminary auditions substantially raised the chances of a woman's ultimately being hired. Between 25% and 45% of women's increased membership in symphony orchestras since 1970 seems to stem from their enhanced opportunity to be judged solely on musical ability.

A STARK CONTRAST IN JOBLESS TRENDS



joblessness to a level that is as close to full employment as may be achievable without igniting inflation. But in Europe, net job creation has been minimal for nearly two decades, and unemployment has moved to record levels despite sluggish labor-supply growth.

The big question, of course, is why most European nations cannot get their job engines fired up—and why America can. In a recent paper in the *International Labor Review*, Freddy Heylen, Lucia Goubert, and Eddy Omeij of the University of Ghent in Belgium suggest an answer that observers have tended to ignore: the sharp contrast in macroeconomic policies on different sides of the Atlantic.

The consensus view among economists is that industrial economies in recent decades have been buffeted by structural shifts sparked by technological advances, foreign competition, and globalization. Because of its relatively flexible labor market and wage structure, the U.S. economy was able to adjust to these shocks and continue to generate jobs. But in Europe, so the story goes,

JAMES C. COOPER & KATHLEEN MADIGAN

FROM AUTOS TO NEW HOMES, CONSUMERS ARE GOING WHOLE HOG

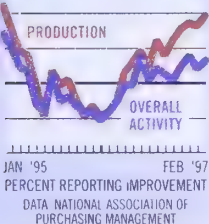
Big-ticket buys and strong income growth reflect a robust labor market

U.S. ECONOMY

If the economy was supposed to slow down in the first quarter, somebody forgot to tell consumers. Bolstered by the longest set of fundamentals in years, household spending began 1997 with a bang. And since inventories are already lean heading into the new year, manufacturers are starting to feel some pressure to boost output to catch up with demand.

The economy's strength, which has come as a surprise to many analysts, shows up in nearly all pieces of the latest data. Reports on everything from consumer surveys to home sales to factory orders have bested expectations (charts), sending many economists back to their spreadsheets to review the near-term prospects for growth and Federal Reserve policy.

PURCHASERS SEE A PICKUP IN ACTIVITY



Indeed, in the second leg of his semiannual report to Congress, this time before the House Banking Committee, Fed Chairman Alan Greenspan reiterated on Mar. 5 that many of this business cycle's temporary depressants on inflation—including job insecurity and health-care costs—may now be ending.

Most Fed watchers still believe that Greenspan will not hike interest rates at the Fed's Mar. 25 meeting. However, Greenspan has already admitted that possible financial-market excesses are now playing a more prominent role in the Fed's thinking. And given the recent data and the chairman's tough talk, nearly all agree that the chances of a preemptive strike aimed at containing inflation and assuring stable financial markets have increased.

GREENSPAN HIMSELF SAID, questions about the outlook "are especially focused on the behavior of consumers." And right now, it appears that household spending is more likely to be stronger than expected, not weaker. Real consumer spending on goods and services jumped a solid 0.6% in January, on strength in autos, computers, furniture, and recreation.

That means consumer spending started the quarter at an annual rate of 2.9% above the fourth quarter level. Even small gains in February and March would ensure another quarter of at least 3% spending growth. More surveys suggest brisk February activity, while car

and light-truck sales stood at a 15.3-million annual rate. That was down from 15.5 million in January but still stronger than the fourth-quarter's 14.8-million pace.

Consumers also are plunking down big bucks for housing. Sales of new single-family homes jumped a startling 8.6% in January, to an annual rate of 870,000. That was the highest sales pace in 11 years, and home buying in each of the three previous months was revised up. Analysts had almost uniformly expected January sales to decline. The Commerce Dept. admitted that a new computerized data-gathering system may have overestimated the month's total. More than half the data were collected using the new method, but even accounting for the overstatement, sales are clearly strong.

THE WILLINGNESS OF HOUSEHOLDS

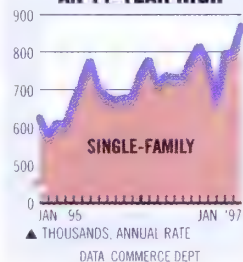
to commit to purchases of big-ticket items should come as no surprise, given the strongest labor markets in years. The most recent evidence: The Conference Board's index of help-wanted ads for January rose to 87, matching the November level as the highest reading for the year. But the most compelling trend is that for first-time jobless claims. Through Feb. 22, the four-week average of new claims fell to 313,000, matching the lowest reading in this six-year expansion.

The combination of strong job markets and low inflation is generating solid gains in purchasing power. Real after-tax income rose a sturdy 0.5% in January, which already puts first-quarter growth at a 4% annual rate, compared with the fourth-quarter level. The 12-month growth rate of real income has been holding at about 3% since last spring.

And with the labor markets continuing to tighten, income growth at that pace, or faster, is a realistic expectation in coming months, and spending should grow in line with income.

Moreover, households already have throttled back on credit use. Installment debt is now growing roughly in line with incomes, at a time when stock market gains and rising home prices are buoying the asset side of consumers' balance sheets. Also, the saving rate has been rising for three years, adding to households' financial cushions. During the past half-year,

NEW-HOME SALES HIT AN 11-YEAR HIGH



households have saved 5.2% of their aftertax income, the most in four years and more than the 4.9% average for the past decade.

THE CONSUMER-LED STRENGTH in demand is working its way back to U.S. manufacturers. And with inventories low in relation to sales, orders are strengthening and the incentives to lift output are building.

The Commerce Dept.'s second take on fourth-quarter gross domestic product showed that inventory growth was only half of what it was first estimated to be. The revision, to a rise of \$16.4 billion from \$31.9 billion, more than accounted for the adjustment to overall GDP growth, to 3.9% instead of 4.7%.

But the inventory revision indicates upbeat prospects for overall growth in the first half of 1997. That's because inventory growth is lagging well behind the pace of demand (chart). During the past year, stock levels have risen 1.2%, while final demand for goods is up 4%. Unadjusted for inflation, the December inventory-sales ratio was at a record low.

That's one reason why factory orders remain on an upward track. Bookings for durable goods rebounded strongly in January. They rose 3.6%, more than making up for two losses posted in November and December. In addition, unfilled orders jumped 0.8% and now stand at the highest level in five years.

And according to the National Association of Pur-

chasing Management, the factory sector's allegro tempo continued in February. The NAPM's composite index of business activity rose to 53.1% last month, up from 52% in January, led by strength in new orders and production. A reading greater than 50% means that manufacturing activity is on the rise.

In fact, two components of the index caught the eye of the financial markets: The index of prices paid rose to the highest level in 1½ years, and the speed with which companies make deliveries slowed. Both are indicators of pricing pressures that are known to arouse the interest of Fed Chairman Greenspan. Still, these indexes remain below the thresholds touched back in 1994, during the last round of Fed tightening.

But unless consumers dial back their enthusiasm, the pressure on production capacity and goods price will only grow in coming months. Right now, solid job markets, rising wages, and healthy balance sheets mean consumers face few spending obstacles. But their smooth sailing means that the spring will prove to be an especially challenging time for policymakers at the Fed—and for the financial markets as well.

THE PRESSURE TO BUILD INVENTORIES



CANADA

BUDGET BALANCING IS ON FAST-FORWARD

Canadian consumers and businesses went on a shopping spree in the fourth quarter. And the economic pickup will help the effort to balance the budget.

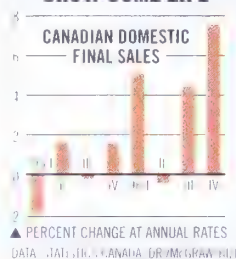
Real gross domestic product

grew at an annual rate of 2.9% last quarter.

The gain was less than expected, but the October strike at General Motors Corp. contributed to a 10.1% drop in exports that had been the key driver of the recovery.

Domestic demand jumped at a 7.5% clip, the fastest rate in a decade (chart). Outlays for business equipment and homebuilding remained very strong, a sign that 1996's drop in interest rates is spurring demand.

FINAL SALES FINALLY SHOW SOME LIFE



Private economists and the government expect real GDP to rise more than 3% this year. Exports will bounce back, lifted by steady growth in the U.S. and better economic gains in Europe and Asia.

In addition, interest rates will remain low because inflation is benign—consumer prices were up just 2.2% in January—and because the government has made great strides in taming its budget deficit.

In fact, the Liberal Party government of

Prime Minister Jean Chrétien is a year ahead of schedule to balance the budget. For fiscal 1997, which ends on Mar. 31, Ottawa says the deficit will total 19 billion Canadian dollars (U.S. \$13.9 billion), or

2.4% of GDP. For 1998, the gap will likely fall to C\$17 billion, and a balanced budget is expected by 2000.

The Liberals are expected to take advantage of Canada's improved fiscal outlook and healthy economy by calling for a general election in early summer. All signs suggest they will win, but not surprisingly, the new budget contained some modest goodies for voters, including a child-poverty initiative and new spending on farming and education.

But the budget offered little to boost private employment. The jobless rate, though down from November's 10%, was still high at 9.7% in January. And businesses were disappointed that the budget did not have more tax relief, which would ensure that the expansion barrels along into 1998.

THEFT, VANDALISM, AND CHAOS.

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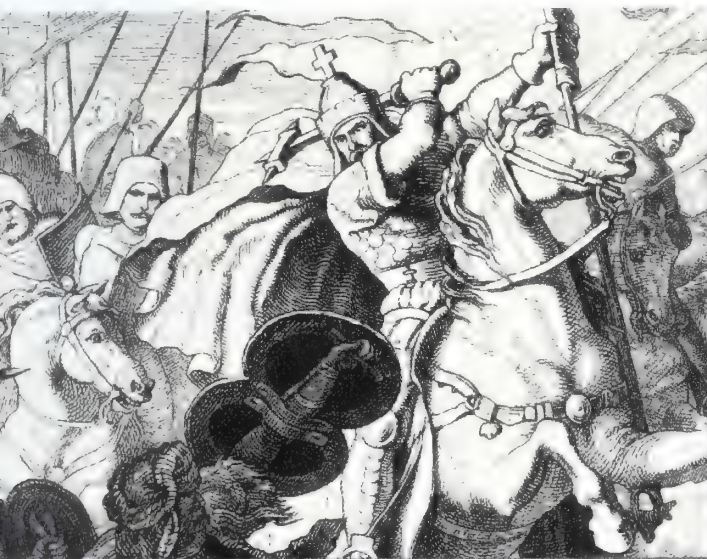
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THE ECONOMY

HEALTH-CARE INFL

Costs are shooting up—and by 1998, increases could hit double digits

Stephen N. Karp doesn't like what he sees in his crystal ball. The benefits vice-president for Miami-based Ryder System Inc. anticipates a 5% rise in health costs for 1997—a big jump after three years of below-inflation increases. But it's 1998 that has Karp really worried. He's hearing that health-care costs may climb by 10% or 12% as insurers hike administrative fees and hospitals and doctors forget about cost containment and press for rate hikes. "It's pent-up cost pressure," Karp says. Insurers, he figures, "will take a deep breath and pass on some of their increased costs to customers."

Corporate America's health-cost holiday is coming to an end. For three years, employer costs rose slowly, or even fell (chart). But for 1997, health-care spending is rising more quickly than other prices—and in 1998, costs could shoot up at a double-digit pace. "The last few years have been great for employers, but now the pendulum's swinging back," says John C. Erb of benefit consultants Foster Higgins Inc. He predicts 10% hikes next year.

PLENTY TO PRUNE? Some analysts say that's too pessimistic. America's health-care providers still have plenty of costly facilities and inefficient practices to prune. With 40% of hospital beds empty every night, "we have enough excess capacity to keep a lid on costs through the turn of the century," says John F. Sheils, vice-president of health forecaster Lewin Group. But even optimists say costs will grow faster than inflation through 2000—and then accelerate.

That's bad news for the economy, for companies—and for workers. If the rising cost of health care, which ac-

counts for 15% of the economy, triggers a jump in overall inflation that could have widespread repercussions next year and beyond.

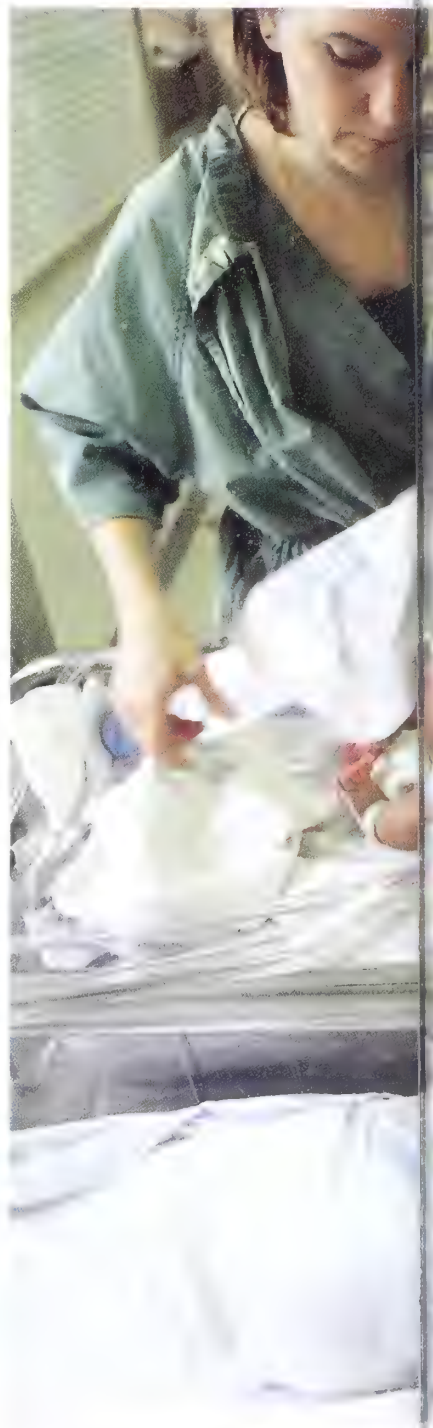
Some consumers are already getting soaked. Even with slow health-care inflation, companies have cut coverage and shifted costs to employees. The share of full-time workers with health insurance fell from 76% in 1992 to 73% in 1994, according to Princeton University economists Alan B. Krueger and Helen Levy. As costs rise, more workers are likely to face limits on medical care as employers struggle to cope.

Costs are headed up because the overhaul of the health-care system that began in the early 1990s is running out of steam. Shocked by double-digit medical inflation, major corporations launched a wholesale switch to "managed care." Millions of workers were transferred from costly fee-for-service setups, in which they went to the doctors they chose and were reimbursed by the insurer, to managed-care networks. Enrollment in such plans—health-maintenance organizations, preferred-provider organizations, and point-of-service plans—shot from 48% of covered workers in 1992 to 77% in 1996.

Since managed-care plans cost less—\$3,305 per employee in 1996, vs. \$3,739

THE PRESSURE IS ON...

- With 75% of workers already enrolled in managed-care networks, the easy savings are over
- Their drive for market share behind them, managed-care companies are focusing on profits
- Doctors and hospitals are banding together to resist insurers' demands for discounts
- To make up for cuts in Medicaid and Medicare, providers will seek more from corporate customers
- Proposed legislation would mandate benefits and provide patients with weapons to fight HMO restrictions—potentially raising costs



ION: IT'S BAAACK!



for traditional insurance—every employer who made the switch saw immediate savings. Now that phenomenon is winding down. “Managed care has penetrated about as far as it can,” says Paul Fronstin, health-care economist for the Employee Benefit Research Institute in Washington. The bulk of employees—50%, in Foster Higgins’ latest survey—have settled into PPO or POS plans. And, fearing employee backlash, few companies are willing to cut costs further by forcing workers into HMOs, the most restrictive networks. So employers must count on competition among managed-care firms to hold prices down.

But managed-care operators aren’t keen to bear the brunt of competition. In the rush to win business, insurers sacrificed margins. That became obvious last summer, when higher-than-expected drug and outpatient claims cut into HMO earnings. Minneapolis-based HMO giant United HealthCare Corp. saw profits fall

NEWBORNS:
One costly reform: A mandated two-day hospital stay for new mothers

16% in 1996’s second quarter, and its stock got hammered, along with those of other HMOs.

Now, insurers want their profits back. United hiked rates 5% on

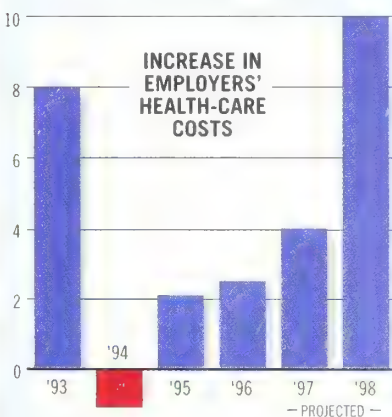
average for 1997, and pressed some small accounts to cough up 12% increases. It’s also trying to boost efficiency, targeting better management of high-cost diseases such as congestive heart failure. But cost control is not enough, says CEO William W. McGuire: “To align the price of service with the cost of service, we’ve got to increase our prices.”

NARROWER MARGINS. Washington is piling on costs, too. In a crowd-pleasing election-year gesture, President Clinton pushed through a measure mandating two-day maternity stays, ending “drive-by” deliveries. Now he has a budget plan that could put cost pressure on providers. Clinton expects to wring one-third of his \$100 billion in Medicare savings from HMOs. Plans serving the elderly would see their reimbursement cut from 95% of local medical rates to 90%. That will still cover costs for the mostly healthy seniors who sign up for HMOs—but leaves insurers with narrower margins and less leeway to offer discounts to other customers. Meanwhile, lawmakers are responding to a consumer backlash against HMOs with laws that could hike costs (page 30).

Insurers are also taking heat from providers. Consolidation is helping hospitals and doctors win back some of the pricing clout they gave up to join managed care. The biggest consolidator is Nashville-based Columbia/HCA Corp., which has absorbed more than 300 hospitals, 135 surgery centers, 550 home-health providers, and a growing number of physician practices. “As its market share grows, Columbia’s less inclined to give discounts to HMOs,” says Salomon Brothers health-care analyst Mark Banta.

Size can work for health-care buyers, too, of course. Health plans that try to put through rate increases “are going to lose their competitive position,” warns Helen Darling, who oversees health-care benefits for Xerox Corp. Large employers, she says, “don’t have to take those increases.” Big employers can also avoid the insurers. Xerox and Minneapolis’ Business Health Care Action Group, a coalition of 25 Twin Cities firms, are experimenting with

...DRIVING COSTS SKYWARD



▲ PERCENT

DATA: FOSTER & HIGGINS

ways to eliminate the HMO middleman—buying medical services directly from hospital and doctor networks.

But such innovations will only delay the runup in health-care spending. Medical researchers predict a burst of costly new techniques—just in time for baby boomers hitting their golden years. “We’ll have a fully implantable artificial heart by 2000—\$100,000, installed—and

just about everybody over 50 could benefit from a new heart,” says Burton A. Weisbrod, professor of economics at Northwestern University. Based on an analysis of a half-dozen emerging technologies, William B. Schwartz, professor of medicine at the University of Southern California, concludes that health spending will grow at double-digit rates well into the 21st century.

Better treatments, of course, mean longer and better lives. But for employers, they ensure that the struggle to check health spending will be long-lived and vigorous, too. Corporate America may look back on the mid-’90s as a golden age of medical restraint.

By Mike McNamee in Washington with Gail DeGeorge in Miami, and Ro Stodghill II in Chicago

REVENGE OF THE HMO PATIENTS

Health-maintenance organizations have long argued that they should be immune from malpractice claims because they’re administering medicine, not practicing it. And, they’ve warned, any attempt to change that—or saddle them with other regulations—will boost costs and lead to rate increases.

The HMOs’ argument against malpractice liability has worked for years, but it may be crumbling. HMOs and other managed-care organizations now have an enormous say in treatment. And, argues D. Ted Lewers, a trustee of the American Medical Assn.: “If you’re going to be involved in medical decisions... you should be held accountable.”

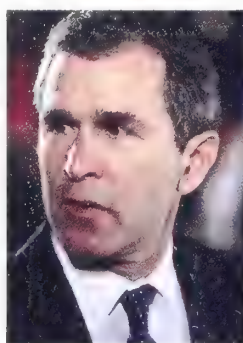
UPHILL FIGHT. That’s the objective of a bill in the Texas legislature that would hold HMOs and other managed-care companies liable for medical negligence when their clients suffer injury or death. The measure faces an uphill fight, however: Governor George W. Bush worries that it would raise costs and hints that he’ll veto it if it passes. Florida Governor Lawton Chiles vetoed a similar bill.

But the issue won’t go away. Lawmakers are heeding voters’ complaints about managed care. In Congress, there’s a move to crack down on such managed-care practices as

denying coverage for nonurgent emergency-room visits or discouraging doctors from discussing expensive treatments with their patients. State legislatures also are considering dozens of new mandated benefits—like a Maryland bill that would require health plans to pay for blood products—in a flurry of what one HMO lobbyist calls “legislation by body part.”

The anti-HMO furor in statehouses could conflict with federal law, though. Managed-care firms have long been shielded from state regulation by the federal Employee Retirement Income Security Act of 1974, which covers most employer-sponsored health plans. It preempts state rules that mandate certain benefits, so multi-state employers can offer their workers uniform benefit packages nationwide.

For patients, ERISA imposes strict limits on complaints. HMO members can sue their doctors for malpractice in state courts—where the laws usually favor patients. But the health plans themselves claim that ERISA



VETO THREAT?

Texas Governor Bush worries that the bill would raise health-care costs and, if it is enacted, he may veto it

shields them from state liability. In plans protected by ERISA, members must take complaints to federal courts—and can collect only for the cost of denied treatment. If an HMO refuses to cover a \$100 blood test, for example, the member can collect only \$100—not for lost earnings and pain and suffering caused by a condition that the test might have caught. “The economic result of ERISA preemption is enormous,” says Barry F. Rosen, chairman of Gordon, Feinblatt, Rothman, Hoffberger & Hollander, a Baltimore law firm.

But the ERISA shield is cracking. Three federal appeals courts have ruled that HMO doctors act as agents of the companies, providing a legal basis for patients to sue HMOs for malpractice. The U.S. Labor Dept., which enforces ERISA, agrees. “In our view, ERISA was never intended to preempt state malpractice laws,” says Assistant Labor Secretary Ole-na Berg.

If the ERISA shield should go, “health-care plans will become viewed as a deep-pockets target,” says Joel Michaels, a Washington attorney whose clients include the American Association of Health Plans. And that, he warns, could trigger rate increases. But a little health-care inflation isn’t likely to end the consumer backlash to managed care.

By Stephanie Anderson Forest in Dallas, with Mike McNamee in Washington and bureau reports

BACKLASH IN TEXAS?

Texas Senate Bill 386 would permit malpractice suits against HMOs:

TARGETS HMOs and other managed-care companies offering plans not covered by the federal Employees Retirement Income Security Act

FOUNDATIONS They could be sued for negligence when their members suffer injury or death when being treated

SIGNIFICANCE No state permits malpractice suits against HMOs yet. Florida Governor Lawton Chiles vetoed such legislation in 1996, arguing health-care costs would soar

By Dean Foust

GREENSPAN IS RIGHT TO STAKE OUT WALL STREET

Time was when a Federal Reserve chairman's musings about the stock market were almost as rare as sightings of Halley's Comet. But these days, it seems Alan Greenspan frets about overvalued stock prices whenever he opens his mouth.

Greenspan's sudden candor about this market fears has generally played poorly with Congress and Wall Street. Testifying before the House Budget Committee on Mar. 4, Greenspan was criticized by Representative Jim Bunning (R-Ky.) for "jawboning" the market. Rosanne M. Cahn, an economist for Credit Suisse First Boston Corp., blasts Greenspan's "hubris" for thinking he can analyze stock prices better than the experts: "Why is it the business of the chair of the Fed?"

The answer is simple and compelling: The market is, increasingly, a central force in the banking system that the Fed was created to oversee. For tens of millions of Americans, the market—not passbook accounts or money-market funds—is where they stash their savings for retirement or educating the kids. It is a revolutionary change—too big for the central bank to ignore.

GOOD MOVE. That's why Greenspan has piloted the Fed into new waters. The chairman insists that he would never raise interest rates solely to deflate the market. But he makes it clear that market trends may play a decisive role in future Fed rate decisions. And this important shift in the Fed's monetary calculus is wise.

Consider the sheer size of the market. Before the 1990s, the total market capitalization of publicly-traded equities averaged 48% of the nation's gross domestic product. It reached a peak of 81% in 1987—just before the crash. Today, capitalization stands at

110% of GDP, calculates James A. Bianco, research director for Arbor Trading Group Inc. in Barrington, Ill.

And, there is no indication that the stock market's growing presence in the economy will fade. For one thing, with stock prices at record levels, companies that used to raise funds by borrowing are increasingly issuing

wealth. If consumers start taking their profits out of the market and into the stores, Greenspan & Co. will be right there watching. At the first sign of such an inflationary buying binge, they'll pounce. It wouldn't take much: Bianco calculates that if investors spent even 2% of their gains since 1995, GDP growth would jump a full percentage point.

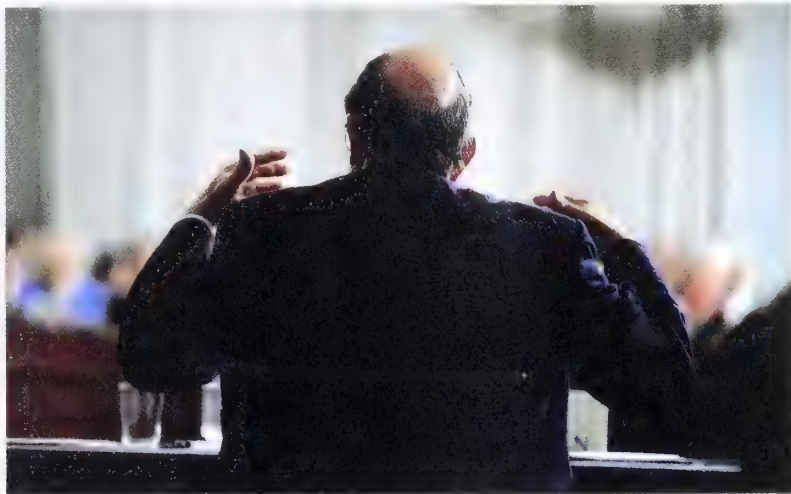
CORRECTION. The Fed is also concerned about the converse: the "loss-of-wealth effect" from a sharp market downturn. Investors shaken by a market rout could pare their spending—with dire consequences for the economy. Sung Won Sohn, chief economist for Minneapolis' Norwest Corp., fears that a steep 20% correction could pare consumer spending by \$100 billion and trigger a recession.

With the potential for such a dramatic

macroeconomic effect, Greenspan has good reason to be watchful of Wall Street. But the Fed chairman shouldn't try to micromanage the level of the market. That's not his job. Greenspan himself agrees. "It would be most inappropriate if indeed that is what I was doing," he said in a speech on Mar. 5. But it is appropriate that a central banker

today be ready to deal with the economic consequences of a soaring or plummeting market—and to put investors on notice. Right now, the market is the wild card in the economic deck—and it may well determine how Greenspan plays his next hand.

Foust covers the Fed in Washington.



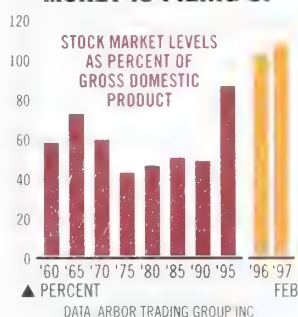
With the market now so crucial to so many, the Fed must keep a cautious eye on stocks

GREENSPAN TESTIFYING: HIS CANDOR HAS BEEN BEDEVILING THE DOW

stock instead. More important to Greenspan are the millions of first-time investors racing into the market. Today, some 84 million adults own stocks, double the rate of the late 1980s, according to a poll by Peter D. Hart Research Associates. Three-quarters of the money in mutual funds has been invested since 1990. That means the market's vicissitudes have an enormous impact on consumer behavior and attitudes.

Indeed, Greenspan is keeping his eye on what consumers do with their newfound wealth. The Fed chairman has been awaiting evidence of the "wealth effect"—the economic axiom that consumers will spend some 3% to 5% of their newfound

WHERE AMERICA'S MONEY IS PILING UP



TRANSPORTATION

HIGHBALLING TOWARD TWO BIG RAILROADS?

Conrail's buyout by CSX and Norfolk Southern may clear the way for a pair of coast-to-coast giants

The bigger they get, the better they get. Seventeen years ago when the U.S. railroad industry was deregulated, some 40 sizable carriers lumbered over the nation's rails. Many were losing money or barely profitable, and trucking lines were stealing their business by the ton. But consolidation of railroads is accelerating like a runaway locomotive—and as it does, the emerging rail giants are winning back business. Some 40.6% of intercity freight now chugs behind locomotives, up from 35% in 1978, says the Association of American Railroads. "You've seen the industry really stop the incredible hemorrhaging...the massive loss of share in tons transported," says Harvard business school Professor Willis Emmons.

On Mar. 3, rail consolidation reached another milestone. Directors of Conrail Inc. accepted the concept of a plan under which the big Northeast freight line will be carved up by CSX Corp. and Norfolk Southern Corp. That will leave just four major U.S. railroads—and will open the way for the possibility of a final consolidation down to just two railroads, each spanning the continent.

Conrail's decision to accept a breakup

came after pressure from Norfolk Southern Chairman David R. Goode. Until he came along with counteroffers, the onetime government-owned Conrail was ready to sell itself intact to CSX in Richmond, Va. Now, CSX is expected to buy Conrail for \$10.3 billion, about \$2 billion more than it first planned, then turn around and sell half of Conrail's routes to Norfolk Southern.

Shippers are pleased. Soon, two major railroads—Norfolk Southern and CSX—will compete for a Northeast freight market monopolized by Conrail since it was created in 1973 out of the bankrupt Penn Central Transportation Co. and several other lines. "If you end up with competing railroads, shippers have got to view that as a plus," says Edward M. Emmett, president of the National Industrial Transportation League, a nationwide organization of more than 1,000 shippers. And both lines can look forward to increased efficiency, since they will be able to reach customers directly instead of handing off traffic to Conrail, as they do today.

LOSERS, TOO. That is, if Goode, CSX chief John W. Snow, and Conrail managers can work out the final details. Aside from divvying up routes, they are likely to take several other steps aimed at assuring increased competition—and winning the seal of approval from the Federal Surface Transportation Board. For instance, they may set up jointly owned terminal railroads in cities such as New York and Philadel-

phia, Conrail's base. Shippers in those hubs could use the terminal lines to move cargo onto both carriers.

Certainly, the government and shippers are intent on keeping the orderly—and mostly beneficial—consolidation of the freight lines on track. Mergers have increased economies of scale and reduced time- and money-wasting handoffs of traffic among different lines. The average cost of moving freight has plunged about 24% (or 54% in inflation-adjusted terms) since 1981, says the Association of American Railroads.

But there have been losers, too. Prices in regions with no rail competition are about 15% to 20% higher than in those where competition exists, say M. Stuart Blanton, transportation procurement manager at DuPont Co. Says Blanton: "You'd be hard-pressed to find any major shipper who doesn't have that concern." Tetra Technology Inc., a \$200 million-a-year Woodlands (Tex.) producer of road salt, has reallocated production among its Western plants because prices are so much higher at those served by just one carrier. "There's no way the railroads will operate on a competitive basis unless they're told to," says Tetra transportation chief James F. Jundzillo. "I wouldn't."

The key question is what lies further down the track. Some industry analysts speculate that the four major rail carriers could dwindle to just two, with each of the remaining Eastern roads joining one of the huge Western lines—Burling-



HEADING NORTHEAST

The deal-splitting Conrail's routes between the two buyers—should give both a path to the big urban terminals

Pacific (SP) line. Even so, some critics are worried that UP won't give BNSF full freedom on its tracks. "BNSF doesn't own it. They can leave tomorrow," warns Barry A. Williamson, a member of the Texas Railroad Commission, which fought the merger of UP and SP. Some shippers can go back to the trucks, but producers of such bulk goods as coal and salt have no alternative.

ROUND THE BEND. In the past three years, battles to remake the system have rivaled the dueling of the rail barons of the late 1800s. Critics ranging from the Texas Railroad Commission to the Justice, Agriculture, and Transportation Depts., along with shipper groups, were blistering in their criticism of the UP-SP pact last year, for instance. After the Western deals, some critics lobbied for extensive changes, even suggesting that carriers be forced to open all lines to all competitors—much as interconnecting natural-gas systems carry one another's products. "Let's reframe the debate to shippers' rights," says John T. Estes, head of the Coalition for Competitive Rail Transportation, a shipper group.

Such notions send rail execs round the bend. Policing such a system, they say, would mean reviving aggressive Washington oversight—which died in 1995, along with the Interstate Commerce Commission. "It's an effort to reregulate the railroad industry, and it would put us right back into the 1970s, when everybody was going down the tubes," charges UP's Davidson.

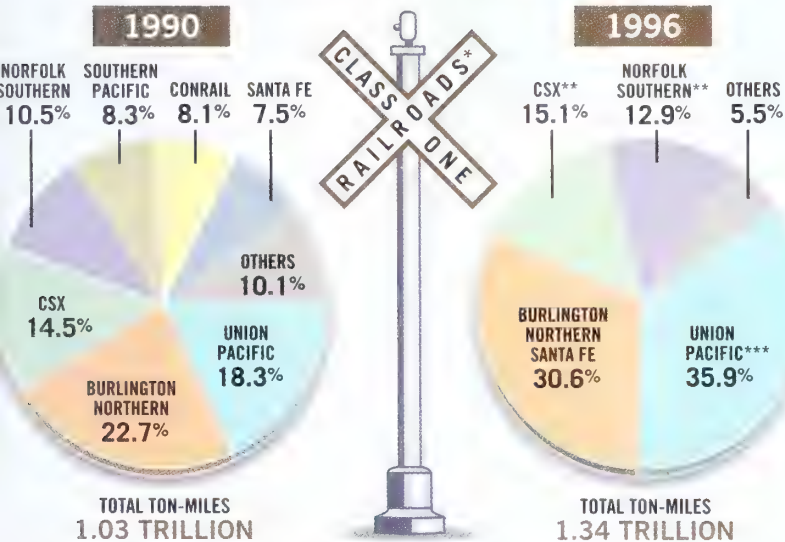
But if the Eastern rail network comes together as Goode suggests, rail execs and shippers alike will have plenty to be happy about. Soon enough, they may get the chance to fret over how transcontinental competition will shake up the system anew. Meanwhile, in the East, the coming competition between the CSX and Norfolk Southern systems looks like the light at the end of a very long tunnel.

By Joseph Weber in Philadelphia

Northern Santa Fe Corp. (BNSF) and Union Pacific Corp. Those giants were born in earlier mergers (Union Pacific has absorbed Southern Pacific). Senior officials of CSX privately concede that the reworking of the Eastern system lays the groundwork for eventual transcontinental deals. If that happens, will consolidation have gone too far? Plenty of shippers are worried about dwindling competi-

tion, particularly in the West. The Surface Transportation Board, which oversees rail mergers, was so worried last year about consolidation in the West that it made Union Pacific Corp. (UP) rent out some 3,550 miles of track—a huge grant of so-called trackage rights—to rival BNSF to run competing trains. Otherwise, UP would not have been allowed to push ahead with its \$5.4 billion acquisition of the Southern

U.S. FREIGHT LINES COUPLE UP



*INCLUDES NATION'S 9 LARGEST RAILROADS

**RESTATE AS IF CSX AND NORFOLK SOUTHERN HAD DIVIDED CONRAIL IN 1996. SPLIT OF CONRAIL TON-MILES IS APPROXIMATE

***RESTATE AS IF UP AND SP WERE COMBINED FOR ALL OF 1996

SOURCE: ASSOCIATION OF AMERICAN RAILROADS, INDIVIDUAL CARRIERS

LEGAL BATTLES

BIG BLUE IS OUT TO COLLAR SOFTWARE SCOFFLAWS

It's policing what it says is rampant patent infringement

Big Blue holds more software patents than any other company in the world. That's great for bragging rights, but it does little for the bottom line. Now, however, IBM sees money in that trove of intellectual property—and its efforts to collect are making other software companies hopping mad.

Lawyers for Big Blue are searching for software companies that it says should be paying royalties but aren't. Over the past several months, IBM has been quietly pursuing patent claims against such well-known software companies as Oracle, Computer Associates, Adobe Systems, Autodesk, Intuit, and Informix. IBM is also pressing a software claim against computer maker Sequent Computer Systems Inc.

So far, no lawsuits have been filed, but software companies aren't waiting. Several of them are launching a preemptive strike, hiring Silicon Valley's star litigator, Gary L. Reback, a partner at Wilson Sonsini Goodrich & Rosati. Two years ago, Reback took on Bill Gates. Representing a handful of Silicon Valley companies, he unsuccessfully tried to get the Justice Dept. to broaden an antitrust investigation of Microsoft Corp.

COUNTERATTACK. Now, Reback is hurling charges against IBM similar to those he leveled at Microsoft. "IBM shows up the same way someone might demand protection money," he says. Officials at the companies confirm that IBM has contacted them, but most refuse to talk publicly.

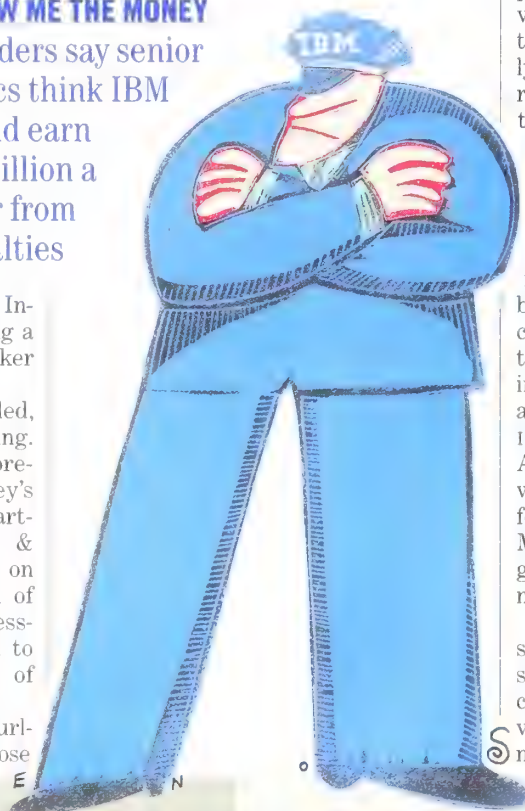
Collecting the patent royalties could add millions to IBM's net profits. In 1995—the last year IBM released figures—the company took in \$650 million from royalties on all patents, software and hardware alike. Insiders say that senior managers believe IBM could collect \$1 billion a year from its patents.

The software makers that have been contacted by IBM (table) aren't yet willing to help Big Blue

reach that goal. They maintain that a lot of software patents—IBM's included—are too broad and never should have been issued. IBM's pursuit of royalties, they argue, is an abuse of a patent system that is too lax and does

SHOW ME THE MONEY

Insiders say senior execs think IBM could earn \$1 billion a year from royalties



WHERE'S MY CUT?

IBM has the world's largest portfolio of software patents, which has brought it prestige but not much cash. Now, it's quietly pursuing patent claims against a slew of companies

not require an applicant to really prove that the software invention is unique.

IBM contends it's just trying to protect its intellectual property and get a fair return on the \$5 billion yearly tab it runs up on research and development. "What Gary Reback is asking us to do is provide an R&D subsidy to our competitors, and we won't do that," says Marshall C. Phelps Jr., IBM's attorney in charge of intellectual property and licensing.

When IBM strikes a royalty agreement, it collects 1% to 5% of the retail price of a product using the covered technology. That's a sliding scale depending on the number of patents involved. If IBM can collect royalties from those companies using its approximately 2,500 U.S. software patents, it could reap almost as much from software as the \$200 million in royalties it gets from PC makers. Reback says he was told IBM asked one software maker to pay \$30 million to \$40 million a year.

COSTLY PRECEDENTS? Indeed, some folks in the computer and software businesses fear that the whole industry could wind up paying a 1% to 5% tab to IBM. "It's hard to be in the computing business—hardware or software—and not infringe on a couple of dozen IBM patents, if not more," says Gre Aharonian, a patent consultant. Meanwhile, other technology companies are following IBM's lead. Says Richard A. McGinn, president of Lucent Technologies Inc.: "We've seen IBM become much more aggressive, and we are, too."

IBM has patented everything from the software to automatically return the cursor to the start of the next line on a computer screen to a state-of-the-art virus-detection program. So far, it has made claims against companies by invoking patents including a spell-check function and techniques for how a database program handles queries and runs on so-called parallel-processing computers.

Software companies aren't eager to settle. Intuit Inc., for one, rejected a patent license deal that IBM offered. Some companies are afraid that paying now will set precedent, making it harder to say no later. "If we sign up with IBM today, then what happens in three or five years, when the patent agreement expires?" asks Oracle Corp. patent attorney Allen Wagner. With all the skirmishing that lies ahead, this dispute is still in Version 1.0.

By Ira Sager in New York

COMPANY & PRINCIPAL BUSINESS

ADOBE/Publishing

AUTODESK/Computer-Aided Drafting

COMPUTER ASSOCIATES/Mainframe Utilities

INFORMIX/Database

INTUIT/Personal Finance

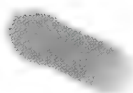
ORACLE/Database

SEQUENT COMPUTER SYSTEMS/Parallel Computers

DATA BUSINESS WEEK



transistor, Bell Labs '47



56 Kbps modem chip set, Bell Labs '97

CHIP off the old block.
(couldn't resist)

invented transistor fifty years ago. Made modern electronics possible (TVs, radios, computers, cell phones, foot massagers, etc.). New Bell Labs innovation: 56 Kbps modem chip set from our Microelectronics Group. Can make Internet access twice as fast over regular phone lines. (Think jet-powered surfing on Net.) Seven of top ten modem makers already use our chips. (Expect other three to call any moment.) To learn more, check our Web site.

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SOFTWARE

OF MICE AND MICROSOFT

How Citrix' overnight success turned so sour so fast

Dancing with an elephant is tricky in the best of circumstances. Dancing with an elephant that changes course on a dime can be downright hazardous. Just ask Edward E. Iacobucci, chairman of Citrix Systems Inc. in Fort Lauderdale, Fla. The software company saw revenues triple to \$45 million last year from just \$15 million in 1995. At its peak last year, the company had a market cap of nearly \$1.5 billion. Most of that amazing performance was based on a relationship with Microsoft Corp. that came down to this: Microsoft endorsed Citrix technology that lets a dozen or more computers share Windows programs running on a central, networked computer. With the software giant's blessing, Citrix was golden.

The merry dance ended on Feb. 26, when Citrix announced that Microsoft was considering adding features to new versions of Windows to do part of what Citrix' products do. With Citrix' Microsoft relationship in question, investors fled and the stock plummeted 60% on Feb. 27, to 10¢ from 26¢. On rumors of a Microsoft rift, it already had fallen nearly \$6 a share earlier that week. Citrix' market capitalization briefly dropped below \$250 million.

FRIEND OF BILL. What's surprising is that the market was so surprised. After all, the reliance on Microsoft was listed prominently among "risk factors" in public disclosures made in connection with Citrix stock. The documents even alerted investors to the possibility of Microsoft becoming a major competitor. "They were clear, to my knowledge, that Microsoft might end up with a sim-



HORNING IN?
"Microsoft is a big enough company that it can do anything it wants when it wants to"

—Edward Iacobucci

ilar technology," says James E. Allechin, a Microsoft senior vice-president.

Part of what may have lulled Citrix investors into a sense of security was Iacobucci's history with Microsoft Chairman William H. Gates III. Iacobucci says he worked with Microsoft "when Microsoft was smaller than Citrix." Before starting Citrix in 1989, Iacobucci worked for 11 years at IBM and headed the IBM-Microsoft team that developed the OS/2 operating system. Gates even wrote the foreword to Iacobucci's *OS/2 Programmer's Guide*. Microsoft was an early investor in Citrix, owned 6.8% of its shares, and had a board seat.

All that meant little when it came down to business: Citrix was serving a market that Microsoft figured it needed to be in. Citrix products allowed customers to hook up all sorts of computers—including Macintoshes and stripped-down "network computers"—to servers

that let them use Windows or Windows NT programs.

Microsoft says it began exploring the development of such "multi-user capability" because customers were asking for it. Microsoft blessed the Citrix approach so customers could get immediate gratification. But, says Allechin, "was just a question of time" before Microsoft would develop its own product. Coming now, the timing is sooner than the market had anticipated, says Thomas C. Offutt, vice-president of business development for Wyse Technology Inc., a network-computer maker and strategic partner with Citrix.

Citrix still has a business, with Microsoft's own version months or perhaps years away, says Chip Gliedman, director of research for technology consultants Giga Information Group Inc.

"Every company that has made its living extending Microsoft's capability has had to learn to dance between the feet of the elephant," he says. "I'm not writing Citrix off, and I'm advising our clients who are deploying Citrix not to do so."

UNDEAD. Indeed, addressing industry analysts at a Robertson, Stephens & Co. technology conference the day after the announcement, Iacobucci borrowed a line from Mark Twain, assuring investors: "The reports of my death have been greatly exaggerated." Citrix, he points out, has licensing agreements with Microsoft and other strategic partners, \$137 million in cash, and no debt.

And while Microsoft plans to build more components into Windows that make multi-user and remote-user capability possible, both Iacobucci and Allechin point out that the software giant may license some technology from Citrix in its multiuser programming. "Microsoft is a big enough company that it can do anything it wants when it wants to," Iacobucci says. "The fact that we're still here [negotiating] bodes well." Indeed, that's what happens when you dance with elephants. You get crushed—or learn to dance faster.

By Gail DeGeorge in Miami, with bureau reports

THE SAGA OF SOFTWARE SUPPLIER CITRIX: ITS RISE AND FALL

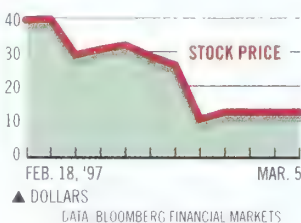
APR. 1989 Citrix Systems is co-founded by IBM software veteran Edward E. Iacobucci.

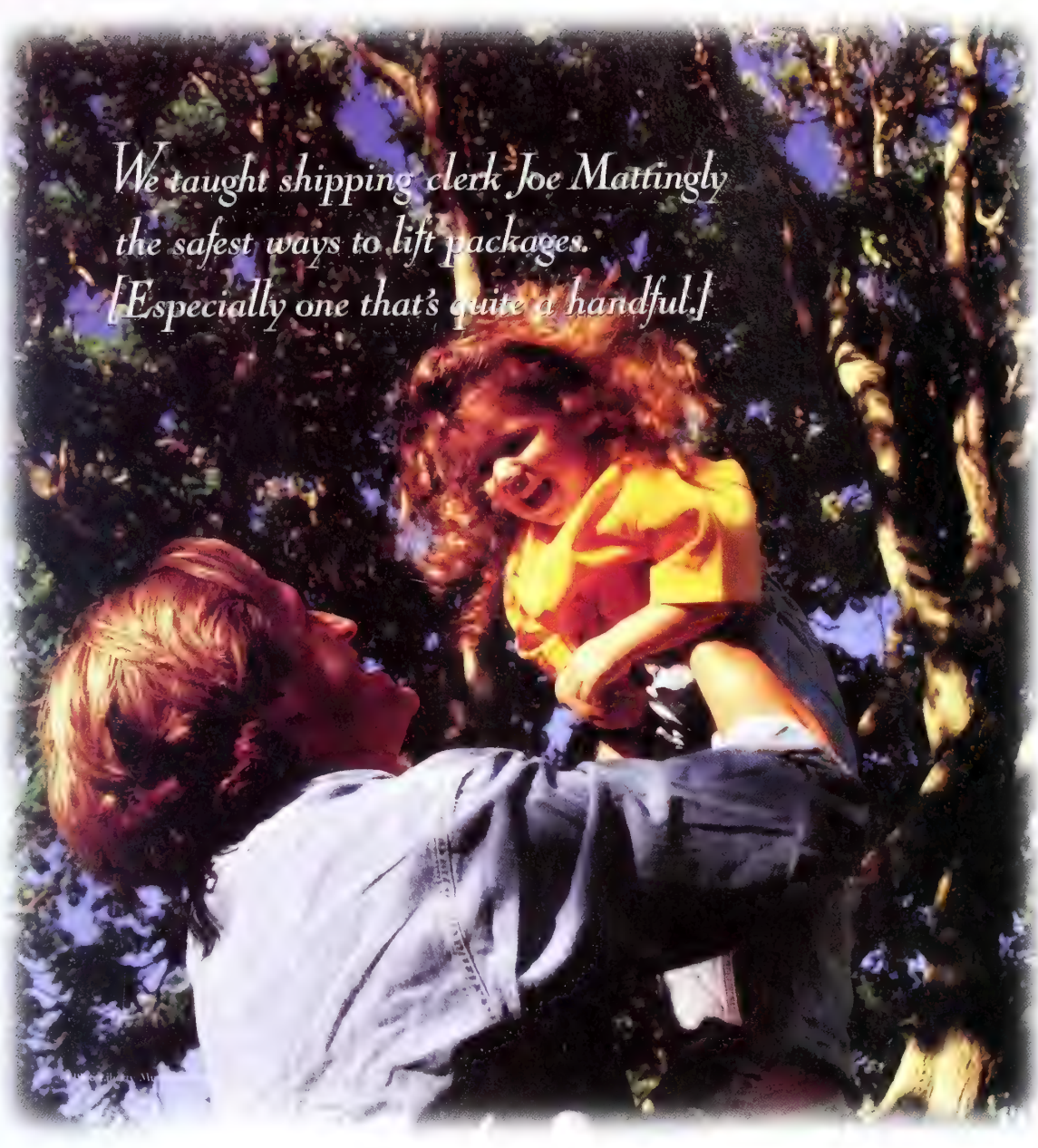
DEC. 1991 Microsoft buys stock and places a director on the board. It eventually invests \$2.4 million before Citrix goes public.

DEC. 1995 Citrix goes public at \$15 a share, netting \$39 million. Its market cap peaks at \$1.5 billion.

FEB. 26, 1997 A Citrix announcement causes investors to worry that Microsoft is about to

include competing technology in Windows.



A photograph of a man with light brown hair, wearing a light blue button-down shirt, lifting a young child with curly brown hair and a yellow shirt piggyback. They are in a wooded area with sunlight filtering through the trees. The text is overlaid on the top left of the image.

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COMMENTARY

By Greg Burns

MCDONALD'S: NOW, IT'S JUST ANOTHER BURGER JOINT

Viewed from McDonald's Corp.'s insular corporate campus in Oak Brook, Ill., the new plan to sell Big Macs and McMuffins for 55¢ made perfect sense. After all, declining same-store sales in the U.S. were the chain's most glaring weakness. What better way to put some sizzle in the top line than a bold pocketbook appeal?

Well, McDonald's executives should have realized there is, in fact, a better way. But apparently they took no notice of the fallout when Philip Morris Cos. announced deep cuts on "Marlboro Friday"—or of last year's "Grape Nuts Monday," when the Post unit of Kraft Foods kicked off a cereal price war. Predictably, "Hamburger Wednesday" on Feb. 26 sent investors on a Big Mac attack, slicing 9% off McDonald's share price in three days and dragging rival fast-food issues down with it. "It looks almost desperate," says Piper Jaffray Inc. analyst Allan F. Hickok of the 55¢ come-on. Adds Damon Brundage of NatWest Securities Corp.: "They have transformed one of the great brands in American business into a commodity."

GIMMICK. McDonald's executives compounded the damage by remaining silent for days while disaffected franchisees squawked. Although most eventually voted to approve the plan—some urban operators, whose prices are always higher, voted no—the stock leveled off 5% below its recent average. That should be a lesson for all companies trying to hit home runs on Wall Street when base hits on Main Street are in order. McDonald's brass should have articulated a comprehensive U.S. strategy: Investors need to know the chain has a better response to sluggish domestic sales and stiffer competition from rival Burger King Corp. than starting a new price war.

As it stands, investors and fran-

chisees have good reason to worry: The 55¢ sandwich deal seems likely to cheapen the brand and erode future earnings power. Meantime, Burger King continues to play the discount game adroitly with 99¢ sandwich deals: Its marketing efforts have been superior, and consumers say its food simply tastes better.

In any event, McD's plan will pay

for a chain that probably was heading for another down year in the U.S.

There's a better way to boost sales long term. First, McDonald's needs to slow an overly aggressive U.S. unit-expansion plan. In a drive for market share, the chain added 1,130 units in '95 and an additional 726 in '96. But cannibalization has weakened some older units, and newer ones aren't generating enough volume. McDonald's has been sending mixed signals, saying it's backing off but

also hinting it will open as many as 720 new stores in '97 and bring the U.S. total to nearly 13,000. To restore investor confidence, it must present a coherent strategy for new construction. McDonald's also needs to correct a key misstep of '96: The much-criticized launch of "Deluxe" sandwiches. The high-priced line's anti-kid advertising turned off the chain's most important customers.

GUMMY BUNS. More fundamentally, McDonald's needs to burnish its marketing and brand-building efforts. McDonald's is capable of making great ads, and it enters 1997 with a new effort from its longtime ad shop Leo Burnett Co. and with Walt Disney Co. as a merchandising partner. Surely, opportunity knocks.

To take advantage of that opportunity, McDonald's must address its biggest weakness: The quality of its food has slipped behind that of Burger King and Wendy's. Those new buns taste gummy. How about going back to toasting them? And, please, add the lettuce and tomato at the last minute instead of letting them wilt on a hot patty. Franchisees say McDonald's USA Chairman Jack M. Greenberg made one concession recently, telling them it's OK. to season the burgers again. Let's hear it for fewer price cuts and more salt and pepper.

Chicago Correspondent Burns covers McDonald's Corp.



off because customers only get the discount if they buy a drink and potatoes, too. Yet that gimmick-within-a-gimmick threatens to undermine pricier "Extra Value Meals," one of the chain's most successful recent marketing initiatives. Consumers expecting cut-rate combos won't go back to paying full price, especially if other fast-feeders discount their package deals. And McDonald's will have to push hard to make the 55¢ deal pay. Same-store sales will need to rise by more than 2%, franchisees and analysts estimate—a tough challenge

That 55¢ promotion
has cheapened
a great American
brand name

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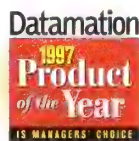
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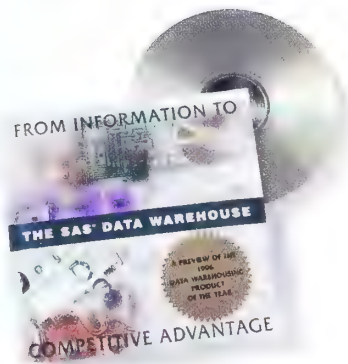
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of a first heart attack, lower the
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or healthcare professional if
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side effects, such as slight rash
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in about 2-4% of patients.
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to any of its ingredients or by
anyone with liver disease. Your
doctor may perform blood tests
to check your liver function
before and during treatment.
Tell your doctor right away if you
experience any muscle pain or
weakness, as it may be a sign of
a rare, but serious side effect. Be
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you are taking so any possible
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CONTRAINDICATIONS: Hypersensitivity to any component of this medication. Active liver disease or unexplained, persistent elevations in liver function tests (see **WARNINGS: Pregnancy and Lactation**). Atherosclerosis is a chronic process and discontinuation of lipid-lowering drugs during pregnancy should have little impact on the outcome of long-term therapy in terms of primary hypercholesterolemia. Cholesterol and other products of cholesterol biosynthesis are essential components for fetal development (including synthesis of steroids and cell membranes). Since HMG-CoA reductase inhibitors decrease cholesterol synthesis and possibly the synthesis of other biologically active substances derived from cholesterol, they may cause fetal harm when administered to pregnant women. Therefore, HMG-CoA reductase inhibitors are contraindicated during pregnancy and in nursing mothers. **Pravastatin should be administered to women of childbearing age only when such patients are highly unlikely to conceive and have been informed of the potential hazards.** If the patient becomes pregnant while taking this class of drug, therapy should be discontinued and the patient apprised of the potential hazard to the fetus. **WARNINGS: Liver Enzymes** — HMG-CoA reductase inhibitors, like some other lipid-lowering therapies, have been associated with biochemical abnormalities of liver function. Increases of serum transaminase (ALT, AST) values to more than 3 times the upper limit of normal occurred in 2 or more (not necessarily sequential) occasions have been reported in 1.3% of patients treated with pravastatin in the US over an average period of 18 months. These abnormalities were not associated with cholestasis and did not appear to be related to treatment duration. In those patients in whom these abnormalities were believed to be related to pravastatin and who were discontinued from therapy, the transaminase levels usually fell slowly to pretreatment levels. These biochemical findings are usually asymptomatic although worldwide experience indicates that anorexia, weakness, and/or abdominal pain may also be present in rare patients. **It is recommended that liver function tests be performed before the initiation of treatment, at 6 and 12 weeks after initiation of therapy or elevation in dose, and periodically thereafter (e.g., semiannually).** Patients who develop increased transaminase levels should be monitored with a second liver function evaluation to confirm the finding and be followed until the upper limit of normal is reached. Abnormalities (return to normal) should be increased ALT or ALT of three times the upper limit of normal, or greater, or abnormality of liver function therapy is recommended. Active liver disease or unexplained transaminase elevations are contraindications to the use of pravastatin (see **CONTRAINDICATIONS**). Caution should be exercised when pravastatin is administered to patients with a history of liver disease or heavy alcohol ingestion (see **CLINICAL PHARMACOLOGY: Pharmacokinetics/Metabolism**). Such patients should be closely monitored, started at the lower end of the recommended dosing range, and titrated to the desired therapeutic effect. **Skeletal Muscle** — Rare cases of rhabdomyolysis with acute renal failure secondary to myoglobinuria have been reported with pravastatin and other drugs in this class. Uncomplicated myalgia has also been reported in pravastatin-treated patients (see **ADVERSE REACTIONS**). Myopathy, defined as muscle aching or muscle weakness in conjunction with increases in creatine phosphokinase (CPK) levels to greater than 10 times the upper limit of normal, has been reported in patients receiving pravastatin. Myopathy should be considered in any patient with diffuse myalgias, muscle tenderness or weakness, and/or marked elevation of CPK. Patients should be advised to report promptly unexplained muscle pain, tenderness or weakness, particularly if accompanied by malaise or fever. **Pravastatin therapy should be discontinued if markedly elevated CPK levels occur or myopathy is diagnosed or suspected.** Pravastatin therapy should also be temporarily withheld in any patient experiencing an acute or serious condition predisposing to the development of renal failure secondary to rhabdomyolysis, e.g., sepsis; hypotension; major surgery; trauma; severe metabolic, endocrine, or electrolyte disorders; or uncontrolled epilepsy. The risk of myopathy during treatment with another HMG-CoA reductase inhibitor is increased with concurrent therapy with either erythromycin, cyclosporine, niacin, or fibrates. However, neither myopathy nor significant increases in CPK levels have been observed in three reports involving a total of 100 patients transplanted with liver and/or cardiac allografts for up to 12 months receiving pravastatin 10–40 mg and cyclosporine. Some of these patients also received other concomitant immunosuppressive therapies. In one single-dose study, pravastatin levels were found to be increased in cardiac transplant patients receiving cyclosporine. Further, in clinical trials involving small numbers of patients who were treated concurrently with pravastatin and niacin, there were no reports of myopathy. Also, myopathy was not reported in a trial of combination pravastatin (40 mg/day) and gemfibrozil (1200 mg/day), although 4 of 75 patients on the combination showed marked CPK elevations versus one of 73 patients receiving placebo. There was a trend toward more frequent CPK elevations and patient withdrawals due to musculoskeletal symptoms in the group receiving combined treatment as compared with the groups receiving placebo, gemfibrozil, or pravastatin monotherapy (see **PRECAUTIONS: Drug Interactions**). The use of fibrates alone may occasionally be associated with myopathy. The combined use of pravastatin and fibrates should be avoided unless the benefit from the combination in lipid levels is likely to outweigh the increased risk of this drug combination. **PRECAUTIONS: General** — Pravastatin may elevate creatine phosphokinase and transaminase levels (see **ADVERSE REACTIONS**). This should be considered in the differential diagnosis of chest pain in a patient on therapy with pravastatin. **Homozygous Familial Hypercholesterolemia** — Pravastatin has not been evaluated in patients with rare homozygous familial hypercholesterolemia. In this group of patients, it has been reported that HMG-CoA reductase inhibitors are less effective because the patients lack functional LDL receptors. **Renal Insufficiency.** A single 20 mg oral dose of pravastatin was administered to 24 patients with varying degrees of renal impairment (as determined by creatinine clearance). No effect was observed on the pharmacokinetics of pravastatin or its 3 α -hydroxy isomeric metabolite (SQ 31,906). A small increase was seen in mean AUC values and half-life ($t_{1/2}$) for the inactive enantiomer, ring hydroxylated metabolite (SQ 31,945). Given this small sample size, the dosage administered, and the degree of renal impairment, patients who are receiving pravastatin should be closely monitored. **Information for Patients** — Patients should be advised to report promptly unexplained muscle pain, tenderness or weakness, particularly if accompanied by malaise or fever. **Drug Interactions** — **Immunosuppressive Drugs, Gemfibrozil, Niacin (Nicotinic Acid), Erythromycin** — See **WARNINGS: Skeletal Muscle**. **Antipyrine** — Since concomitant administration of pravastatin had no effect on the clearance of antipyrine, interactions with other drugs metabolized via the same hepatic cytochrome isozymes are not expected. **Cholestyramine/Colestipol** — Concomitant administration resulted in an approximately 40 to 50% decrease in the mean AUC of pravastatin. However, when pravastatin was administered 1 hour before or 4 hours after cholestyramine or 1 hour before colestipol and a standard meal, there was no clinically significant decrease in bioavailability or therapeutic effect. (See **DOSE AND ADMINISTRATION**). **Warfarin** — In a crossover study involving 10 healthy male subjects given pravastatin and warfarin concomitantly for 6 days, bioavailability parameters at steady state for pravastatin (parent compound) were not altered. Pravastatin did not alter the plasma protein-binding of warfarin. Concomitant dosing did increase the AUC and C $_{max}$ of warfarin but did not produce any changes in its anticoagulant action (i.e., no increase was seen in mean prothrombin time after 6 days of concomitant therapy). However, bleeding and extreme prolongation of prothrombin time has been reported with another drug in this class. Patients receiving warfarin-type anticoagulants should have their prothrombin times closely monitored when pravastatin is initiated or the dosage of pravastatin is changed. **Cimetidine** — The AUC $_{0-12}$ for pravastatin when given with cimetidine was not significantly different from the AUC for pravastatin when given alone. A significant difference was observed between the AUCs for pravastatin when given with cimetidine compared to when administered with another *Digoxin* — In a crossover trial involving 18 healthy male subjects given pravastatin and digoxin concurrently for 9 days, the bioavailability parameters of digoxin were not affected. The AUC of pravastatin tended to increase, but the overall bioavailability of pravastatin plus its metabolites SQ 31,906 and SQ 31,945 was not altered. **Cyclosporine** — Some investigators have measured cyclosporine levels in patients on pravastatin, and to date, these results indicate no clinically meaningful elevations in cyclosporine levels. In one single-dose study, pravastatin levels were found to be increased in cardiac transplant patients receiving cyclosporine. **Gemfibrozil** — In a crossover study in 20 healthy male volunteers given concomitant single doses of pravastatin and gemfibrozil, there was a significant decrease in urinary excretion and protein binding of pravastatin. In addition, there was a significant increase in AUC, C $_{max}$, and T $_{max}$ for the pravastatin metabolite SQ 31,906. Combination therapy with pravastatin and gemfibrozil is generally not recommended. **Interaction studies with aspirin, antacids** (1 hour prior to PRAVACHOL), **antidiabetic agents** (insulin, oral hypoglycemics), and **antihypertensive agents** (diuretics, beta-blockers, ACE inhibitors, calcium channel blockers, beta-blockers, or nitroglycerin). **Endocrine Function** — HMG-CoA reductase inhibitors interfere with cholesterol synthesis and lower circulating cholesterol levels and, as such, might theoretically blunt adrenal or gonadal steroid hormone production. Results of clinical trials with pravastatin in males and post-menopausal females were inconsistent with regard to possible effects of the drug on basal steroid hormone levels. In a study of 21 males, the mean testosterone response to human chorionic gonadotropin was significantly reduced ($p < 0.004$) after 16 weeks of treatment with 40 mg of pravastatin. However, the percentage of patients showing a $\geq 50\%$ rise in plasma testosterone after 16 weeks of treatment with pravastatin was not significantly different from the placebo group. The effects of HMG-CoA reductase inhibitors on spermatogenesis and fertility have not been studied in adequate numbers of patients. The effects, if any, of pravastatin on the pituitary-gonadal axis in pre-menopausal females are unknown. Patients treated with pravastatin who display clinical evidence of endocrine dysfunction should be evaluated appropriately. Caution should also be exercised if an HMG-CoA reductase inhibitor or other agent used to lower cholesterol levels is administered to patients also receiving other drugs (e.g., ketoconazole, spironolactone, cimetidine) that may diminish the levels or activity of steroid hormones. **CNS Toxicity** — CNS vascular lesions, characterized by perivascular hemorrhage and edema and mononuclear cell infiltration of perivascular spaces, were seen in dogs treated with pravastatin at a dose of 25 mg/kg/day, a dose that produced a plasma drug level about 50 times higher than the mean drug level in humans taking the highest recommended dose. Similar CNS vascular lesions have been observed in patients in this class. A chemically similar drug in this class produced optic nerve degeneration (Wallenian degeneration of retinogeniculate fibers) in clinically normal dogs in a dose-dependent fashion starting at 60 mg/kg/day, a dose that produced mean plasma drug levels about 30 times higher than the mean drug level in humans taking the highest recommended dose (as measured by total enzyme inhibitory activity). This same drug also produced vestibulocochlear Wallenian-like degeneration and retinal ganglion cell chromatolysis in dogs treated for 14 weeks at 180 mg/kg/day, a dose which resulted in a mean plasma drug level similar to that

seen with the 60 mg/kg/day dose. **Carcinogenesis, Mutagenesis, Impairment of Fertility** — In a 2-year study in rats fed pravastatin at doses of 10, 30, or 100 mg/kg body weight, there was an increased incidence of hepatocellular carcinomas in males at the highest dose ($p < 0.01$). Although rats were given up to 12 times the human dose (HD) on a mg/kg body weight basis, serum drug levels were only 6 to 10 times higher than those measured in humans given 40 mg pravastatin as measured by AUC. The oral administration of 10, 30, or 100 mg/kg (producing plasma drug levels approximately 0.5 to 5.0 times the human drug levels at 4, 12, or 40 mg) of pravastatin to mice for 22 months resulted in a statistically significant increase in the incidence of malignant hepatocellular carcinomas in treated females. When all treatment groups were pooled and compared to control groups, the incidence was not related to dose in males and mice were not affected. A chemically similar drug in this class was administered to mice for 72 weeks at 25, 100, and 400 mg/kg body weight, which results in mean serum drug levels approximately 3, 15, and 33 times higher than the mean human serum drug concentration (as total inhibitory activity) after a 40 mg oral dose. Liver carcinomas were significant increased in high-dose females and mid- and high-dose males, with a maximum incidence of 90 percent in males. The incidence of adenomas of the liver was significantly increased in mid- and high-dose female. Drug treatment also significantly increased the incidence of lung adenomas in mid- and high-dose males and females. Adenomas of the eye Harderian gland (a gland of the eye of rodents) were significantly higher in high-dose mice than in controls. No evidence of mutagenicity was observed *in vitro* with or without rat-liver metabolic activation, in the following studies: microbial mutagen test, using mutant strains of *Salmonella typhimurium* or *Escherichia coli*, a forward mutation assay in L5178Y TK +/- mouse lymphoma cells, a chromosomal aberration test in human cells, and a gene conversion assay using *Saccharomyces cerevisiae*. In addition, there was no evidence of mutagenicity in either a dominant lethal test in mice or a micronucleus test in mice. In a study in rats, with daily doses up to 500 mg/kg, pravastatin did not produce any adverse effects on fertility or general reproductive performance. However, in a study with another HMG-CoA reductase inhibitor, there was decreased fertility in male rats treated for 34 weeks at 25 mg/kg body weight, although this effect was not observed in a subsequent fertility study when this same dose was administered for 1 week (the entire cycle of spermatogenesis, including epididymal maturation). In rats treated with this same reductase inhibitor at 180 mg/kg/day, seminiferous tubule degeneration (necrosis and loss of spermatogenic epithelium) was observed. Although not seen with pravastatin, two similar drugs in this class caused drug related testicular atrophy, decreased spermatogenesis, spermatocytic degeneration, and giant cell formation in dogs. The clinical significance of these findings is unclear. **Pregnancy: Pregnancy Category X** — See **CONTRAINDICATIONS**. Safety in pregnant women has not been established. Pravastatin was not teratogenic in rats at doses up to 1000 mg/kg daily or in rabbits at doses of up to 50 mg/kg daily. These doses result in 20x (rabbit) or 240x (rat) the human exposure based on surface area (mg/meter²). However, in studies with another HMG-CoA reductase inhibitor, skeletal malformations were observed in rats and mice. There has been one report of severe congenital bone deformity, tracheo-esophageal fistula, and anal atresia (Vater association) in a baby born to a woman who took another HMG-CoA reductase inhibitor with dextroamphetamine sulfate during the first trimester of pregnancy. PRAVACHOL (pravastatin sodium) should be administered to women of child-bearing potential only when such patients are highly unlikely to conceive and have been informed of the potential hazards. If the woman becomes pregnant while taking PRAVACHOL (pravastatin sodium), it should be discontinued and the patient advised again as to the potential hazards to the fetus. **Nursing Mothers** — A small amount of pravastatin is excreted in human breast milk. Because of the potential for serious adverse reactions in nursing infants, women taking PRAVACHOL should not nurse (see **CONTRAINDICATIONS: Pediatric Use** — Safety and effectiveness in individuals less than 18 years of age have not been established. Hence, treatment in patients less than 18 years old is not recommended at this time. **ADVERSE REACTIONS:** Pravastatin is generally well tolerated; adverse reactions have usually been mild and transient. In 4-month long placebo-controlled trials, 1.7% of pravastatin-treated patients and 1.2% of placebo-treated patients were discontinued from treatment because of adverse experiences attributed to study drug therapy, this difference was not statistically significant. In long-term studies, the most common reasons for discontinuation were asymptomatic serum transaminase increases and mild, non-specific gastrointestinal complaints. During clinical trials the overall incidence of adverse events in the elderly was not different from the incidence observed in younger patients. **Adverse Clinical Events** — All adverse clinical events (regardless of attribution) reported in more than 2% of pravastatin-treated patients in the placebo-controlled trials are identified in the table below; also shown are the percentages of patients in whom these medical events were believed to be related or possibly related to the drug.

Body System/Event	All Events		Events Attributed to Study Drug	
	Pravastatin (N = 900) %	Placebo (N = 411) %	Pravastatin (N = 900) %	Placebo (N = 411) %
Cardiovascular				
Chest Pain	4.0	3.4	1.3	0.0
Dermatologic	4.0*	1.1	0.1	0.9
Gastrointestinal				
Nausea/Vomiting	7.3	7.1	2.9	3.4
Diarrhea	6.2	5.6	2.0	1.9
Abdominal Pain	5.4	6.9	2.0	3.9
Constipation	4.0	7.1	2.4	5.1
Flatulence	3.3	3.6	2.7	3.4
Heartburn	2.9	1.9	2.0	0.7
General				
Fatigue	3.8	3.4	1.9	1.0
Chest Pain	3.7	1.9	0.3	0.0
Influenza	2.4*	0.7	0.0	0.2
Musculoskeletal				
Localized Pain	10.0	9.0	1.4	1.5
Myalgia	2.7	1.0	0.6	0.0
Nervous System				
Headache	6.2	3.9	1.7*	0.2
Dizziness	3.3	3.2	1.0*	0.5
Renal/Genitourinary				
Urinary Abnormality	2.4	2.9	0.7	1.2
Respiratory				
Common Cold	7.0	6.3	0.0	0.0
Rhinitis	4.0	4.0	0.1	0.0
Cough	2.6	1.7	0.1	0.0

*Statistically significantly different from placebo

In the Pravastatin Primary Prevention Study (West of Scotland Coronary Prevention Study) (see **CLINICAL PHARMACOLOGY: Clinical Studies**) involving 6595 patients treated with PRAVACHOL (pravastatin sodium (N = 3302) or placebo (N = 3293)) the adverse event profile in the pravastatin group was comparable to that of the placebo group over the median 4.8 years of the study. The following effects have been reported with drugs in this class, not all the effects listed below have necessarily been associated with pravastatin therapy. **Skeletal** myopathy, rhabdomyolysis, arthralgia. **Neurological** dysfunction of certain cranial nerves (including alteration of taste, impairment of extra-ocular movement, facial paresis), tremor, vertigo, memory loss, ataxia, peripheral neuropathy, peripheral nerve palsy, anxiety, insomnia, depression. **Hypersensitivity Reactions** An apparent hypersensitivity syndrome has been reported rarely which has included one or more of the following features: anaphylaxis, angioedema, lupus erythematosus-like syndrome, polymyalgia, rheumatism, dermatomyositis, vasculitis, purpura, thrombocytopenia, leukopenia, hemolytic anemia, positive ANA, ESR increase, eosinophilia, arthritis, arthralgia, urticaria, asthenia, photosensitivity, fever, chills, flushing, malaise, dyspnea, toxic epidermal necrolysis, erythema multiforme, including Stevens-Johnson syndrome. **Gastrointestinal** pancreatitis, hepatitis, including chronic active hepatitis, cholestatic jaundice, fatty change in liver, and rarely, cirrhosis, fulminant hepatic necrosis, and hepatoma; anorexia, vomiting. **Skin** alopecia, pruritus. A variety of skin changes (e.g., nodules, discoloration, dryness of skin/mucous membranes, changes to hair/nails) have been reported. **Reproductive** gynecomastia, loss of libido, erectile dysfunction. **Eye** progression of cataracts (lens opacities), ophthalmoplegia. **Laboratory Abnormalities** — elevated transaminases, alkaline phosphatase, and bilirubin; thyroid function abnormalities. **Laboratory Test Abnormalities** — Increases in serum transaminase (ALT, AST) values and CPK have been observed (see **WARNINGS**). Transient, asymptomatic eosinophilia has been reported. Eosinophil counts usually returned to normal despite continued therapy. Anemia, thrombocytopenia, and leukopenia have been reported with HMG-CoA reductase inhibitors. **Concomitant Therapy** — Pravastatin has been administered concurrently with cholestyramine, colestipol, nicotinic acid, probucol and gemfibrozil. Preliminary data suggest that the addition of either probucol or gemfibrozil to therapy with lovastatin or pravastatin is **not** associated with greater reduction in LDL-cholesterol than that achieved with lovastatin or pravastatin alone. No adverse reactions unique to the combination or in addition to those previously reported for each drug alone have been reported. Myopathy and rhabdomyolysis (with or without acute renal failure) have been reported when another HMG-CoA reductase inhibitor was used in combination with immunosuppressive drugs, gemfibrozil, erythromycin, or lipid-lowering doses of nicotinic acid. Concomitant therapy with HMG-CoA reductase inhibitors and these agents is generally not recommended. (See **WARNINGS: Skeletal Muscle** and **PRECAUTIONS: Drug Interactions**). **OVERDOSEAGE:** To date, there are two reported cases of overdose with pravastatin, both of which were asymptomatic and not associated with clinical laboratory abnormalities. If an overdose occurs, it should be treated symptomatically and supportive measures should be instituted as required.

CAUTION: Federal (USA) law prohibits dispensing without prescription.
Consult package insert before prescribing PRAVACHOL® (pravastatin sodium).

RETAILING

RIGHT LIGHTS, BIG STORE

Sears finds a great new place to open up shop: The city

It's urban, it's trendy, it's...Sears? Not quite. But after decades of closing stores in cities and building them in the suburbs, Sears, Roebuck & Co. is changing course. In 1996, Sears opened three full-line stores in metro areas: one in Queens, N. Y., and another in downtown Oakland, Calif. This year, Sears is opening a Brooklyn store, bidding on a mid-Manhattan site, and may acquire real estate in Harlem. The company is also scouting locations in Chicago, Detroit, Philadelphia,



Annual sales at Sears' new city stores average \$75 million to \$100 million—triple the chain's average

San Francisco, and Washington, D. C. With the exception of a few discounters such as Kmart Corp., which just opened stores in Manhattan, most retailers are sticking to suburban malls—for now. But if Sears is successful, expect rivals to follow the trail back to city centers, says Kurt Barnard, president of Barnard's Retail Marketing Report. "The times are ripe for it. [Urban] consumers are looking for beautiful merchandise and large assortments at a moderate price."

So far, Sears' bet on downtown stores seems to be paying off. Rents are higher than those on Sears' suburban stores, but the volumes are higher. The new stores average between \$75 million and \$100 million in annual sales, almost triple the chainwide average. "Our strong metropolitan stores have really performed, and that's not going unnoticed within our corporation," says Allan B. Stewart, Sears' president for retail stores.

CUSTOM BLENDS. The new stores are not clones of Sears' suburban outposts. Sears is customizing the merchandise mix for each urban store. In Long Beach, Calif., where there's a large Cambodian population, the racks have more petite sizes. And for areas where there's a large African-American population, Sears has special apparel lines including African Village and Mosaic, a house brand that features bold colors and a layered look. Says Melvline Green, a retired budget analyst who shops at Sears' new Oakland store: "They have everything you need. There was nothing here before."

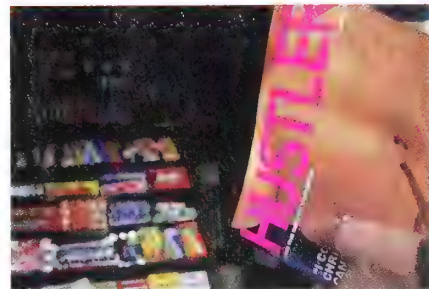
Like other chains, Sears had been fleeing cities for more than a decade. During a 1993 restructuring, it shuttered stores in Dallas, New York City, Pittsburgh, St. Louis, and Washington, D. C. It had closed its flagship Chicago store in 1983.

But with mall construction slowing and a downturn in mall traffic, Sears made a decision to become more of a city retailer again. Urban stores—which

are defined as those with densely populated, ethnically mixed customer bases—represented almost 20% of new stores in 1996, up from zero in 1994. "There's a match between [urban] market needs and what their stores offer," says Glenn A. Pitman, a professor of business at Pennsylvania State University.

The new Sears isn't for everyone: Saks Fifth Avenue doesn't need to worry. But J.C. Penney just might.

By Susan Chandler in Chicago



COMEBACKS

LARRY FLYNT'S LATEST HUSTLE

His free-speech movie is a dud, but it's selling magazines

Phoenix Pictures and Columbia Pictures could lose millions on the movie. The autobiography is selling slowly, and its publisher, Dove Entertainment, doesn't expect a second printing. But one company is benefiting from all the hubbub over porn mogul Larry Flynt: Flynt's own LFP Inc.

Sales of *Hustler* are up 10% since September, the company says, with circulation at about 500,000. An LFP magazine bio of Flynt is selling well, too. Bottom line: Flynt's \$110 million Beverly Hills publishing business anticipates a \$4 million windfall thanks to *The People vs. Larry Flynt*. "Their sales are responding to the publicity Mr. Flynt has gotten," says Anthony Dibisceglia, director of client services at Curtis Circulation Co., distributor of *Hustler* and other magazines, who confirms *Hustler* sales have risen 10% recently.

That has Flynt gloating. "The movie is sort of like \$60 million worth of advertising," he says. That, he says, is the tab for making and marketing the film, which, despite critical acclaim, is unlikely to turn a profit, say industry analysts.

For Flynt, the movie has burnished both his reputation and his balance sheet. He's depicted as a First Amendment crusader. For a moment, he even got into Wal-Mart Stores Inc., where music CDs with explicit lyrics and packaging are banned. Through a mix-up by a distributor, at least two Wal-Mart stores carried the magazine bio, which includes risqué photos from *Hustler*. Wal-Mart told all stores to pull the mag after BUSINESS WEEK asked about it. But the mixup is a clear sign of Flynt's celluloid rebirth.

By David Leonhardt in New York, with Wendy Zellner in Dallas

EDITED BY KELLEY HOLLAND

A SETBACK FOR CIGNA'S SPLIT-UP

NOT SO FAST. A PENNSYLVANIA state court has slapped down CIGNA's plan to split itself into two companies, one inactive unit to handle \$4.5 billion in potential environmental and asbestos liabilities and another for its healthy businesses. The court on Mar. 5 vacated a 1996 approval of the plan by Pennsylvania's insurance commissioner, Linda Kaiser, and faulted the process that she followed in granting CIGNA's bid for a split. Judge Dan Pellegrini said opponents of the plan were not allowed to see relevant papers, couldn't cross-examine witnesses, and got insufficient time to argue their objections. He ordered the commissioner to convene

another hearing on CIGNA's plan—and recuse herself from the new hearing. CIGNA, noting that the ruling doesn't fault the plan itself, plans to appeal and says it will continue doing business as if it were split in two.

STAPLES MAY SOON BAG ITS PREY

WILL STAPLES WIN APPROVAL to buy Office Depot, forming the world's largest office-supply chain? The smart money is saying yes. After repeated delays, the Federal Trade Commission's review of the \$3.5 billion deal is now set to be completed by Mar. 13. Analysts are betting it will go through but figure Staples may have to unload 50 to 150 overlapping stores to satisfy the FTC. Even if it unloaded 150 stores, though, its remaining 840 office-supply outposts would let Staples outgun its nearest rival, OfficeMax, which has 574 stores. But Staples' edge would diminish if OfficeMax buys most of the stores Staples unloads—and OfficeMax has been prospering.

CNA: LET THE HEADS ROLL

CNA FINANCIAL APPARENTLY wants to insure itself against a potential sexual-harassment scandal. Within days of learning that the head of its life-insurance unit allegedly made "offensive comments" to two women and another senior exec failed to remedy the problem for about a month, CNA Financial announced the Mar. 1 resignation of the officials. CEO Dennis Chookaszian personally met with employees on Mar. 3 at the Nashville headquarters of CNA's life-insurance unit to tell them of the Mar. 1 resignations of CNA Life President Jack Kettler and Chief Administrative Officer Robert Teske.

HEADLINER: GEORGE STEINBRENNER

YANKEE-PANKY

Can George Steinbrenner say "team player?" Not likely—at least if it means leaving money on the table. On Mar. 3, his New York Yankees broke ranks with Major League Baseball, announcing a 10-year sponsorship deal with Adidas that is likely to bring in nearly \$100 million.

Fellow owners aren't pleased. They have been pursuing MLB-wide endorsement contracts that would have big- and small-market teams sharing in the proceeds. Baseball says, in fact, that it has commitments from three companies to pay \$150 million for spon-

sorships this year. But it's not clear whether MLB can block the Yankees deal.

Meanwhile, Steinbrenner's view is that sharing is O.K., but competition is better—at least for the Yanks. The Boss, associates say, was miffed at a now-scorched MLB deal with Nike

and Reebok that would have brought each club just \$100,000 annually. The Adidas deal, says Yankees attorney David Boies, "opens up an opportunity for other clubs to benefit much more than they would have under a process that, frankly, wasn't going anywhere."

By Keith Hammonds



CLOSING BELL

WRONG NUMBERS

More grim news from AT&T. On Mar. 3, it outlined plans to spend up to \$9 billion this year to push into businesses such as local calling, which will crimp short-term earnings. First-quarter earnings are now expected to come in around \$1.1 billion, vs. \$1.4 billion a year ago. AT&T also disclosed that profits in its core long-distance and wireless business will fall by up to 15% this year. The news, delivered by President John Walter, sent the stock down 7.5%, to 36%, that day. On Mar. 4, it dropped to 36.



UNITED LOOKS UNITED AGAIN

FRIENDS AGAIN? EMPLOYEE-owned United Airlines has reached new tentative wage agreements with its pilots' and machinists' unions. Previous accords were rejected by both unions in January. The new pacts call for pilots and machinists to receive 5% wage increases in 1997 and 1998 and for United to guarantee wage "snap-backs" to where they were before the 1994 employee buyout. The original 1994 ESOP did not contain wage snap-back provisions. Meanwhile, United says first-quarter profits will likely exceed Wall Street forecasts.

LEFTOVERS AT TUPPERWARE?

IT'S NOT EXACTLY PARTY TIME at Tupperware. The company's stock fell 8%, to 35%, on

Mar. 4 after the Orlando-based manufacturer said first-quarter earnings would take a hit because of lower-than-expected sales in some key markets. While sales in Europe are on track for sharp increases, that's not enough to compensate for a sluggish Asian market and a decline in U.S. sales. Because of the market challenges, Tupperware is shooting for only a slight increase from last year's \$176 million in net income. Erp.

ET CETERA...

- The NLRB plans to issue an unfair-labor charge against Boeing.
- NBC completed a \$2.3 billion deal to air the 2004, 2006, and 2008 Olympics.
- Mobil is expanding its petrochemical project with Saudi Basic Industries.
- Mickey Kantor is joining Morgan Stanley as a senior adviser.

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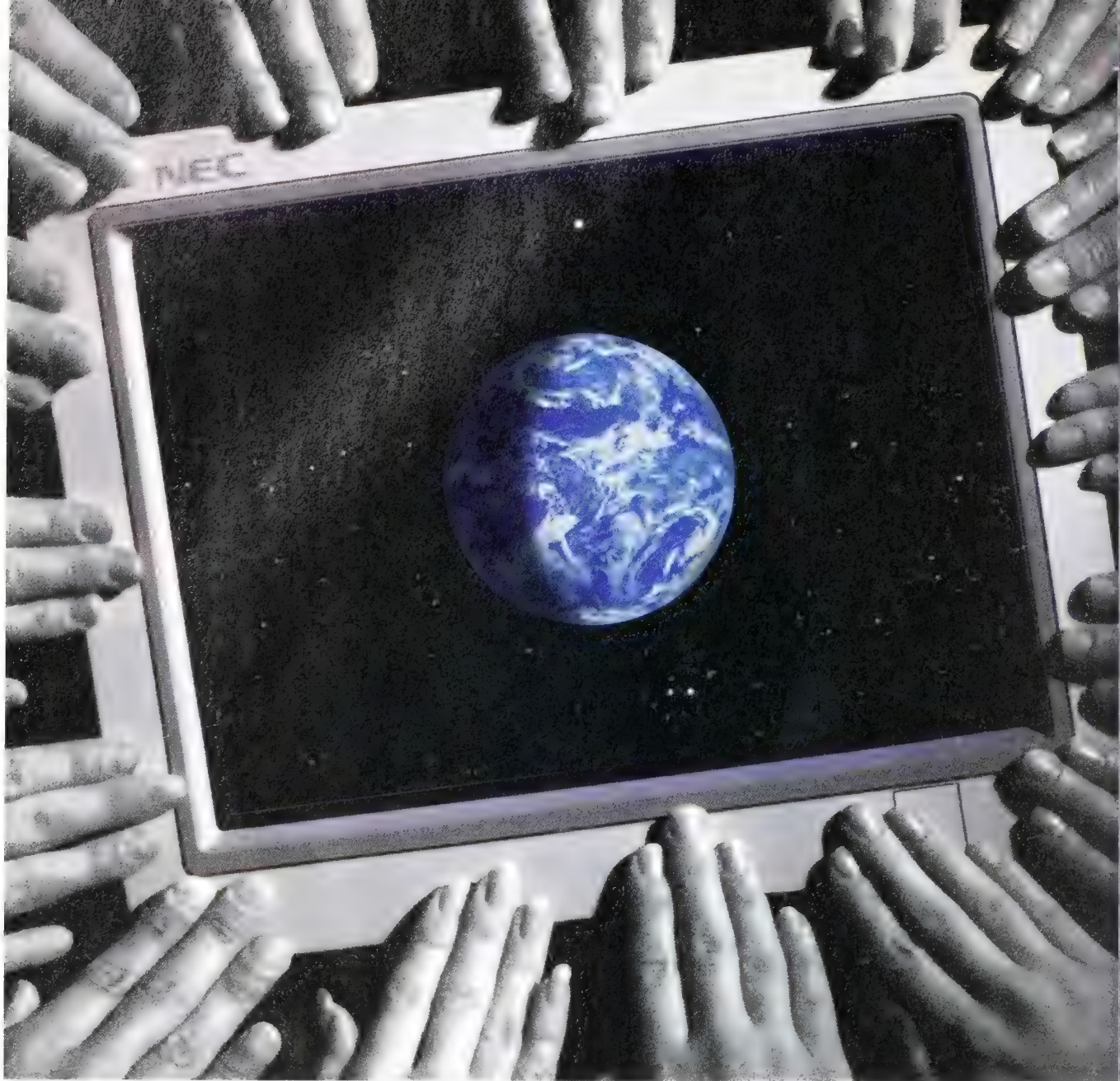


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EDITED BY OWEN ULLMANN

THE BATTLE AHEAD OVER USER FEES—AND WHY BUSINESS MAY LOSE

aced with the tough task of balancing the budget without slashing popular programs, President Clinton came up with a clever idea: Make business pay billions in new user fees to help take up the slack. After all, what could be fairer than asking companies to pay for what they get? And pay they will. The 1998 spending blueprint crafted by Budget Director Franklin D. Raines would create a dozen new fees while increasing the take from 20 that already exist. Over the next five years, business would be hit with \$47 billion in fees on everything from ship tonnage and bank examinations to railroad and slaughterhouse inspections.

The idea is that as direct government funding for regulation and services declines, the shortfall would be made up from fees paid by those who benefit from government activities. But the move has unleashed howls from executives, who fear the outcome will be fewer services and, in essence, a backdoor tax increase. "Clinton's bridge to the 21st century has three lanes closed, and the tolls are going up," gripes Genentech Inc. Vice-President David W. Beier.

The result could be a rash of nasty fights all over Capitol Hill as business tries to block the rush to user fees. But it will be an uphill struggle. Unwilling to raise taxes, lawmakers have already shown an inclination to let Clinton in financing services with ever-more fees.

The most dramatic example of this shift is in aviation. Today, the air traffic control system and some airport improvements are funded through ticket and fuel taxes. But Clinton would replace the system with an \$8 billion-a-year fee tied to services such as air-traffic control and aircraft certification. That could force small airlines and private aviation to pay what critics say is their fair share. But Southwest and other low-cost carriers fear that increasing fees would lead to higher ticket prices and hurt consumers. And all carriers fear that Washington will

siphon off a big chunk of the money to shrink the deficit, just as it has done with current air-tax revenues.

Many of the nation's most innovative companies will battle a plan to divert Patent & Trademark Office fees to other programs. In 1990, the feds imposed a surcharge on patent applicants and holders. Now, Clinton wants to snare \$92 million, or 77%, for other programs. That could nearly double the time it takes to issue a patent. The office is being "raped and pillaged," fumes Michael K. Kirk, executive director of the American Intellectual Property Law Assn., which fears members won't get patents fast enough to protect their inventions.

Another case of business fees replacing government appropriations: the Food & Drug Administration. In 1992, drugmakers agreed to pay the FDA for faster reviews provided that the money—now about \$88 million per year—went only for that purpose. But the White House now wants to extend the fees to include device makers and others, raising the total take to \$237 million. Meanwhile, it would cut Washington's contribution to the FDA by 8%. Grumbles Genentech's Beier: "The industry that already agreed to pay user fees may end up being worse off."

But the White House insists that in tough fiscal times, business must do its part. Charging fees will also force agencies to become more efficient since industry will be closely watching how the money is spent, predict budget mavens. And White House officials insist that most fees will be used to fund services jeopardized by shrinking appropriations and won't disappear into the general fund.

Still, the temptation to grab the bucks will only grow along with user-fee cash. The question is how high the fees will climb—and how much the pols grab for deficit reduction.

By John Carey and Howard Gleckman, with Christina Del Valle



OMB'S RAINES: \$47 billion in fees

CAPITAL WRAPUP

DONORGATE DELAYS

► The Donorgate scandal is slowing White House appointments, especially to trade and foreign policy posts. Former National Security Council official Stanley Roth was to become Assistant Secretary of State for East Asia. But the nomination is stalled because he had NSC meetings with Pauline Kanchanalak, a Thai business rep whose \$235,000 in donations to the Democratic Party had to be returned. Nominations of donors who attended White House coffees are also on hold.

CALLING THE COURTS

► The fight over the Federal Communications Commission's 1996 rules for opening up the local phone market is spreading to the states. Some local companies had gone to federal court to block rules setting prices for leasing their network lines to competitors. Their argument: State regulators had jurisdiction. But now states are setting rules mirroring those by the FCC. So local operators such as GTE are going to state courts. To date, at least 20 states have been sued.

SPEAKER PAXON?

► The buzz in GOP circles is about the hot candidate for House Speaker should Newt Gingrich step aside: Bill Paxon of New York. Supporters say the fifth-term lawmaker, 42, is telegenic, articulate, and more acceptable to moderates than doctrinaire Majority Leader Richard K. Armey of Texas. And as head of the '96 GOP House campaign committee, Paxon has chits to collect from colleagues he helped bankroll. GOP sources say Paxon is quietly sounding out a candidacy.

CUBA

CASTRO'S CAPITALIST

Canada's Sherritt cleans up in Cuba

On a balmy evening last September, Ian W. Delaney, chairman of Canada's Sherritt International Corp., hosted a glittering reception at Havana's Palacio de Convenciones. The next day, Sherritt would be the first capitalist company to hold a board meeting in Cuba since Castro's revolution took hold in 1959. Among those at the party were the British and Canadian ambassadors, much of Cuba's Cabinet, and Vice-President Carlos Lage Dávila. But the celebration was capped by Fidel Castro, who toasted Delaney and his board as being "brave" for defying the U.S.

It was a tribute to Sherritt's status in Cuba. While dozens of companies have invested in the island, Sherritt is by far the biggest player and the only major Western company focused solely on the communist nation. Sherritt's flag flutters outside the island's biggest nickel mine, at Moa, while Sherritt rigs are reviving output from old oil fields. Now, armed with \$675 million in fresh capital—a huge sum for a country with a gross domestic product estimated at \$7 billion—Delaney says he wants to make Sherritt a "proxy for Cuban economic development." He declares: "This country is the best investment opportunity in the world."

Delaney is making

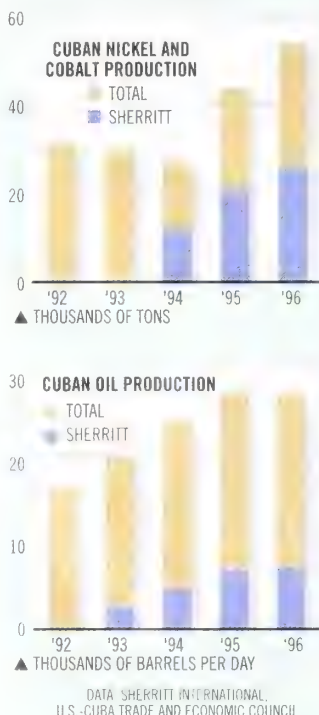
a bold but calculated bet. And he's placing himself at the center of the latest face-off between Washington and Havana. That clash has escalated to the World Trade Organization, where Europe is challenging Washington's Cuba policy as a violation of international trade rules. With Cuba still hurting from the cutoff of Soviet subsidies six years ago, Castro is counting on foreign companies to revive Cuba's economy. Joint ventures are a key plank in his effort to prop up Cuba through limited economic reforms (page 50).

Meanwhile, Washington has a new Public Enemy No. 1. "Ian Delaney has

made a deal with the devil," fumes Marc Thiessen, aide to Senate Foreign Relations Committee Chairman Jesse Helms (R-N.C.). Last summer, Delaney was among the first to be barred from entering the U.S. under the Helms-Burton Act, which tightens sanctions against foreigners investing in Cuba.

So far, the U.S. moves have only emboldened Delaney. "We occupy the moral high ground in Cuba," he says. He is backed by Canadian and European institutional investors who snapped up \$506 million of Sherritt high-yield debentures in November. "Cuba's assets are incredibly cheap, and the potential return is huge," says Frank Mersch, vice-president at Toronto's \$11.2 bil-

HOW SHERRITT HELPS CUBA



lion Altamira Management Ltd., which holds 11% of Sherritt.

Cuba's need for capital, technology and markets created the opening for Sherritt. Castro is offering foreigner deals with rates of return up to 80% a year, analysts say. Delaney, who is called the "smiling barracuda" for his bottom fishing, predicts he'll quadruple his Cuban assets, to more than \$2 billion within five years.

MUTUAL PROBLEM. The lanky Delaney, 53, met Castro after winning control of Sherritt Inc. in a 1990 proxy fight. Sherritt was nearly insolvent, Delaney recalls, because its Alberta refinery was shut for lack of nickel feed. He approached Castro, whose "financial condition was [just] as desperate," he says and got a nickel-supply deal in 1991.

In 1994, that contract blossomed into



With a nod from Castro, Sherritt CEO Delaney may expand from current oil and nickel-mining operations to developing beach resorts and beefing up communication and transport networks

DELANEY OUTSIDE SHERRITT INTERNATIONAL'S OFFICES IN HAVANA

Cuba's most ambitious joint venture, a \$500-million deal between Sherritt and General Nickel Co., a company under the Ministry of Basic Industry. The venture mines nickel and cobalt in Cuba, refines them in Alberta, and sells them in world markets except the U.S. While Sherritt contributed its Alberta refinery, Cuba backed in its Pedro Soto Alba mine at Moa, built in 1958 by a predecessor of New Orleans-based Freeport-McMoRan Inc., plus 50 years of reserves.

Moa was operating at just 54% of capacity when Sherritt came into the picture. Equipped with 1950s technology, it was also "run by the world's worst managers," says Delaney. Sherritt shipped in new equipment and set to work transforming the plant's authoritarian, Soviet-era culture through retraining.

The results at Moa proved startling,

even to Sherritt. Output is 26,000 tons, twice that of 1994. This has been achieved with fewer than 10 expatriates at the mine, which employs 1,680 workers. Six of Moa's eight division managers are Cubans, as is the CEO, Raúl de la Nuez. Sherritt, which lost \$12 million on its metals business in 1993, earned \$30 million on sales of \$147 million from its half of the joint venture in 1996.

With the credibility won from the Moa turnaround, Delaney pitched the idea of creating a "Canadian Pacific of Cuba." He wanted to be designated a preferred investor, just as Canada's Parliament had tapped the railroad a century ago to mobilize European capital for Canada. In November, 1995, Cuba granted Delaney's request in a letter offering him "a diversity of investment opportunities" and "advantages."

To insulate it from U.S. retaliation, Delaney then split up Sherritt Inc., putting the Cuban operations into the new Sherritt International. He sold off the rest of the operations, including a fertilizer unit that did business in the U.S.

Now, Delaney's goal is to diversify far beyond nickel. Sherritt is expanding in oil, where it has nearly tripled production of old fields since 1993 through advanced technology. The company plans to invest in modernizing sugar production and in upgrading transportation and communication infrastructure.

But the most "fantastic" opportunity is tourist-oriented real estate, Delaney says. Cuba has large stretches of undeveloped beaches. Once the embargo is lifted, Delaney figures property prices will soar. He wants Sherritt to become an "umbrella developer" of vacation communities similar to those that line Florida's west coast.

Ultimately, Sherritt's prospects may hinge on how long Castro hangs on. If he lasts a few more years, Delaney could reap huge profits. Mersch, who invested in Sherritt Inc. shortly after

Delaney won control, says subsequent restructuring produced a fivefold return on his own investment. This time, he predicts "a ten- to twentyfold return."

That may sound outlandish. But for all the U.S. blustering, savvy investors believe Cuba is a solid bet. The best time to get in is now, they argue, when there's no competition from Americans. Current investors wager that a post-Castro government won't act against them, for fear of scaring off new money. If so, the irony of the U.S. embargo is that it may end up enriching foreign investors while strengthening Castro's hand. As the largest foreign player, Sherritt stands to benefit most, meaning Ian Delaney gets the last laugh.

By William C. Symonds in Toronto and Gail DeGeorge, with Gail Reed, in Moa

Cuba's economy has seen many grim days since the Soviet Union collapsed and subsidies to Castro's industrial dinosaurs disappeared. Yet what's a dictator to do? As Castro has seen, opening up to capitalism and democracy in Russia cost his former mentors their grip on power. Castro might have played the China strategy and made Cuba a haven for companies looking for cheap labor, but the U.S. embargo has made that impossible.

So Castro is trying to lead Cuba into the 21st century his own way. With the economy under strain, he's counting on cautious reform. He is pruning bankrupt state companies because he doesn't have money to support them. But he isn't giving up control. Fearing popular discontent, he is allowing redundant workers to become self-employed, but he won't let them set up full-fledged private businesses. To boost agricultural productivity, he's encouraging private farming, but he won't let the new farmers own their land. In short, Castro's capitalism *à la carte* is keeping the aging leader in power. But it won't fix Cuba's fundamental economic problems.

SUGAR WOES. To buy time, Castro has sought out investment from brash companies such as Sherritt International Corp. That, combined with a push for tourist dollars, has staved off collapse. After plunging more than 10% in both 1992 and 1993, the government claims the economy grew close to 8% in 1996.

But Cuba's trade deficit is ballooning, too. One reason is that the costs of food imports have been rising even as prices for sugar, the island's chief hard-currency earner, have fallen. The U.S. Helms-Burton Act adds to the pressure by inhibiting foreign investment. Cuba has made no payments since 1986 on its long-term debt, which totals \$10.5 billion, and no new long-

A TOUCH OF CAPITALISM

Castro tries to keep the wolf at bay through careful injections of private enterprise



Cuba semi-libre: Now that bonuses are legal, a salesperson can make more money than an executive

term credit is in sight. As a result of the financial squeeze, warns Minister of Economy & Planning José Luis Rodríguez, growth could slow to 4% this year on a still-shrunken economic base.

Castro's gambit hinges on making thousands of poorly managed state companies more productive. The government is forcing them to boost efficiency

or go out of business. The shakeup has cut subsidies from 5.4 billion pesos in 1993 to 1.4 billion last year—\$74 million at current free-market exchange rates. Says Francisco Soberón, president of Cuba's central bank: "We have taken very, very tough steps."

Just how tight the squeeze is can be seen at the Ernesto Che Guevara Electronic Components complex in Pinar del Río province. Management has slashed payroll by half, to 600 workers, since 1990 as supplies and markets for the radios and components it produced for other socialist countries disappeared. The company found opportunities at home, producing electrical backup systems for Cuba's frequent blackouts.

The government is trying to regroove longtime socialist managers as market-oriented thinkers. "The change is mental and even ideological," says Basic Industries Minister Marcos Portal, who sends his managers books such as *In Search of Excellence* to read. "Now, managers have to pay attention to the market and to their customers."

BONUSES, TOO. To change the mind-set, Havana University has launched an MBA program. Its first 50-member class, which graduated in February, was chosen from 800 applicants. The courses range from accounting to foreign trade. But there are ideological ironies. Grips one MBA student: "I am studying about investing capital when Cubans cannot invest in Cuba. If you are a

foreigner abroad, you can invest. But if you are a Cuban, no."

Meanwhile, Castro is trying incentives to boost productivity. Some 1.3 million workers—about one-third of the workforce—have received cash or non-cash bonuses, such as clothing, for greater output. At Suchel, a maker of toiletries that has joint-venture part-

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[illegible]

Year	Number of cases	Number of deaths	Number of cases per 100,000	Number of deaths per 100,000
1990	1,000	100	1.0	0.1
1991	1,100	110	1.1	0.11
1992	1,200	120	1.2	0.12
1993	1,300	130	1.3	0.13
1994	1,400	140	1.4	0.14
1995	1,500	150	1.5	0.15
1996	1,600	160	1.6	0.16
1997	1,700	170	1.7	0.17
1998	1,800	180	1.8	0.18
1999	1,900	190	1.9	0.19
2000	2,000	200	2.0	0.20
2001	2,100	210	2.1	0.21
2002	2,200	220	2.2	0.22
2003	2,300	230	2.3	0.23
2004	2,400	240	2.4	0.24
2005	2,500	250	2.5	0.25
2006	2,600	260	2.6	0.26
2007	2,700	270	2.7	0.27
2008	2,800	280	2.8	0.28
2009	2,900	290	2.9	0.29
2010	3,000	300	3.0	0.30
2011	3,100	310	3.1	0.31
2012	3,200	320	3.2	0.32
2013	3,300	330	3.3	0.33
2014	3,400	340	3.4	0.34
2015	3,500	350	3.5	0.35
2016	3,600	360	3.6	0.36
2017	3,700	370	3.7	0.37
2018	3,800	380	3.8	0.38
2019	3,900	390	3.9	0.39
2020	4,000	400	4.0	0.40

Solutions for a small planet

ners such as Britain's Unilever PLC, salespeople can earn one-third more than its Cuban executives.

Still, most Cuban factories are mired in inefficiency, and that poses a dilemma for Castro. He needs to keep workers employed to maintain stability. However, the country can't afford to keep idle workers on state-enterprise payrolls indefinitely. Where will the jobs come from? Observers inside and outside Cuba say that Castro must unleash more private enterprise to create growth and jobs. But the 70-year-old political boss knows that economic free-

dom can ignite independent political activity—and social unrest.

On the streets of Havana, Cubans don't talk much about these issues. For most, life seems better than a few years ago, when the economy was crashing and rationed food was scarce. Havana these days is coming back to life. Locals frequent new state and family-run restaurants. Farmers' markets brim with vegetables and meat for sale at free-market prices in pesos. Even so, food production falls short of the population's needs. Those who can't afford market prices rely on meager rations.

If the experience of other economies in-transition is any guide, crunch time may be nearing. Like the leaders of Russia and China before him, Castro may face pressure for change from new forces in his country. Self-employed entrepreneurs may start looking for ways to reinvest their profits. Managers of state companies might seek greater autonomy. Like it or not, Castro may have to introduce far more sweeping market reforms just to sustain a modest recovery. If not, the alternative is likely to be slow and painful decline.

By Gail DeGeorge in Havana

A SHOEMAKER GETS BACK ON ITS TOES

Salsa music blares as workers slap white rubber strips on sneakers in a factory outside Havana that once made U.S. Keds. In the packing rooms, young workers sort finished pairs onto quality-control racks. From the loading platform of Empresa de Goma Conrado Piña, Soviet-built trucks haul the shoes to the government's chain of 600 "dollar stores." The company sold 1.8 million pairs of its Lover brand of footwear last year through these outlets at the retail price of around \$3.65 a pair.

For Conrado Piña, a state-run rubber-products maker with 800 employees, that was a remarkable turnaround. After the collapse of supplies from the Soviet Union in the early 1990s, production fell to just 100,000 pairs. To shake up the enterprise—and aid the economy—the Ministry of Basic Industry gave managers such as Conrado Piña's Lázaro

DIRE WARNING. With a \$50,000 loan from the ministry, González found new suppliers of canvas and grommets in Mexico. Designers created styles, and workers voted on a brand name, Lover. Output soared as the factory slashed production costs—and wholesale prices—by 27%. Sales totaled \$17 million last year, including revenues from products such as tires that sell mostly for pesos. González declines to reveal the company's earnings but declares: "We are profitable in both dollars and pesos."

Conrado Piña is one of the success stories in Castro's drive to convert the island's rundown industries to more efficient producers. Sharp cut-backs in government subsidies are



the spur. Companies doing business in hard currency have been warned that they must show a profit by a date specified in their business plans or be dissolved.

While Conrado Piña has passed that hurdle, it is being prodded by another new force in Cuba's economy: competition against imports sold in dollar stores. The ministry allows González to charge the stores cost plus 10% for his sneakers, currently a total of \$1.65 for each pair. The government then collects about a \$2 markup. González must keep costs low enough to stay competitive with Chinese footwear, which sells for 50¢ less than the Lover brand.

To take the consumer pulse, Conrado Piña has been surveying stores and local schools. Although magazine, TV, and radio advertising is largely

QUALITY CONTROL

Longer-lasting
Lover sneakers
outpace imports

prohibited, the company boasts glossy brochures. It is also planning to buy space on billboards, which feature consumer products as well as socialist slogans.

Lover sneakers have captured a bigger share of the market than their Chinese rivals, the company claims. According to one survey, Lovers outsell foreign brands in 62.6% of Havana's stores. The revamped product line offers 25 styles and colors. It had just one before.

To keep Conrado Piña growing, González plans to start selling his Lover sneakers in Mexico by the end of this year. Having turned his company around in Cuba, he wants to test his new management style in export markets.

By Gail DeGeorge and Gail Reed in Havana



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CHINA

DAY OF THE CHINA-BASH

Pressure mounts on Washington to get tougher with Beijing

Ross H. Munro was braced for the worst. The book he wrote with Richard Bernstein, *The Coming Conflict with China*, is the kind of popular tract Sinologists love to blast as naive China bashing. But since the book's February release, former journalists Munro and Bernstein have had a lead article in *Foreign Affairs* and have had up to 10 interviews and talk show appearances a day. Most surprising, Munro says, was the tame criticism they got from Sinologists at seminars at Harvard University and the Asia Society's Los Angeles chapter. "We were steeling ourselves for a very hostile response," he says. Instead, "we've tapped into a great anxiety out there."

The China hawks are having their day. Yes, there has always been some scaremongering, mostly from the right—Jesse A. Helms and his ilk—or human rights groups on the left. And many China-bashing articles in the media seem to be part of a Republican effort to embarrass the Clinton Administration over accusations his campaign took

illegal money from pro-Beijing Asian entrepreneurs.

But now, the reassessment of China policy has shifted to think tanks and journals that are closer to the middle ground in Washington and exert real influence on foreign policy. And it's coming at a delicate time—just as high-level diplomacy is in full swing and U.S. and Chinese negotiators seem close to a breakthrough on China's entry into the World Trade Organization. If a growing grassroots hostility to China starts to sway Congress, then the White

House's brand of go-gentle diplomacy could be forced to change.

The bashers are getting a reading hearing as a stream of news undercut White House arguments that broad contact with the outside world will encourage Beijing to follow global norms. On Feb. 1, for example, the State Dept.



ERS

...ceded that treatment of dissidents as worsened since the Administration topped linking it with renewal of China's most-favored-nation trade status. When Defense Intelligence Agency director Lt.-Gen. Patrick Hughes told Senate committee that China could be "large-scale regional threat to U.S.

interests within the next 10 to 20 years." Previously, the DIA had been dismissive of China's military. Meanwhile, the Commerce Dept. reported that the U.S. trade gap with China swelled by 7%, to \$39.5 billion in 1996.

DOOMED. While nobody is saying yet that rapprochement will be blown off course, political sentiment seems to be shifting toward a harder line. Whatever real Clinton reaches with Beijing on WTO entry could be in for a rough grilling from members of Congress who doubt Beijing's sincerity. Pressure to help Taiwan and Japan modernize their defense systems could grow. Other goals by the pro-China lobby, such as permanent MFN status, look doomed.

The real fear of many China experts is that alarmism will feed a cold war hysteria over any move by Beijing to upgrade its backward industries and military. "Engagement" seeks to assure China's evolution into a responsible member of the global community. The new hawks argue that the issue isn't whether to "engage" China, but how far to go before national interests are compromised. "There is a deep reservation that the Clinton crowd doesn't know what they are doing in China," says former U.S. Am-

bassador to China James R. Lilley. "The pendulum is starting to swing back toward a more balanced engagement."

One anxiety in Washington is that the Clintonites will get duped in the current WTO talks. Beijing negotiators promise major reforms in the Chinese economy. An agreement would be nice, the hawks argue, but because China lacks a rule of law, how can it be trusted to enforce such pacts? Although China twice has promised to crack down on theft of intellectual property, piracy of music compact disks and computer software is as rampant as ever. "The Administration is touting economic success, but it has very little to show for it," says Greg Mastel of the Economic Strategy Institute, a Washington think tank. A vociferous critic of Beijing's trade policies, Mastel has writ-

Committee on U.S.-China Relations. "This has cooled the zeal among the business community" to lobby for China.

The Administration is asking for patience. So far Clinton's China policymakers have reached an agreement on nuclear tests. And in the last two months, sources say, the Administration has gotten high-level signals that top Chinese leaders are serious about resolving their differences with the U.S. over the terms of entry in time for President Jiang Zemin's trip to Washington this fall. Since then, "the negotiations have moved more rapidly than most people expected," says George Washington University China watcher David L. Shambaugh. The cynics, however, aren't convinced the Communist Party and China's immense bureaucracy has reached consensus to dismantle subsidies and protection for its industries.

The last thing the White House needs is for a surge of anti-China feeling to undermine its diplomatic progress and reinforce Beijing's suspicion that the U.S. is conspiring to "contain" China. The irony is that "you now have a situation where the Administration's effort to engage China is succeeding, but without a political base of support," says Richard H. Solomon, the State Dept.'s top East Asia specialist under George Bush. If sensitive events like the July

SOME OF THE NEW HAWKS ...

JAMES LILLEY Former envoy to China, now director of the Institute for Global Chinese Affairs at the University of Maryland

GREG MASTEL China specialist at Economic Strategy Institute, Washington think tank run by Clyde Prestowitz

RICHARD BERNSTEIN AND ROSS H. MUNRO Former Beijing correspondents, authors of *The Coming Conflict with China*

SAMUEL P. HUNTINGTON Harvard professor, author of *The Clash of Civilizations*

... AND THEIR POSITIONS

DIPLOMACY

The hawks disagree that China is so vital to U.S. economic interests that issues such as human rights and Taiwan should be downplayed

TRADE

Hawks question Beijing's sincerity about bringing its trade practices in line with world norms. They say protectionism is likely to continue

DEFENSE

They disagree China's military will stay too backward to imperil U.S. interests and dominate Asia

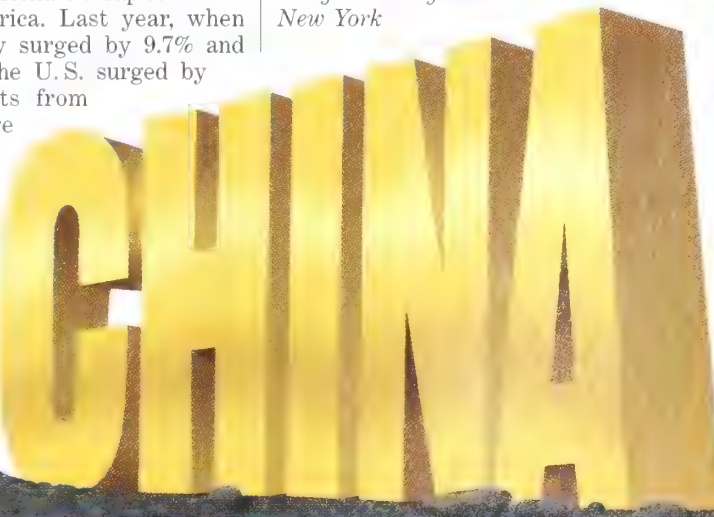
DATA BUSINESS WEEK

ten a book on the Chinese economy.

The growing disappointment over trade could also weaken support from China's biggest friend on Capitol Hill—Corporate America. Last year, when China's economy surged by 9.7% and its exports to the U.S. surged by 13%, its imports from the U.S. were virtually flat. "A lot of commercial expectations were not satisfied in 1996," says David M. Lampton, president of the National

handover of Hong Kong go badly, an anti-China groundswell could send relations into another big chill.

By Pete Engardio in New York



EDITED BY JOHN TEMPLEMAN

BRITAIN: IT'S BEGINNING TO LOOK A LOT LIKE LABOR

Even British Prime Minister John Major is losing hope that he can extend the 18-year reign of his Conservative Party much longer. His Tories were routed in a special election in the normally rock-solid middle-class Liverpool suburb of Wirral South on Feb. 27. The 8,000-vote defeat represented a stunning 17% swing against the Tories since the 1992 general election. If voter opinion doesn't change fast, admitted Major, "we are going to have a Labor government."

Major is expected to dissolve the House of Commons soon and call a general election for May 1. The date is a formality because the campaign already is under way for an election that could bring big changes to Britain.

Veteran Tory politicians and right-wing thinkers, who have preached in favor of the market and against big government for a generation, will be swept aside. A younger, less experienced, more left-leaning crowd will succeed them. "On the whole, we will be more positive about what government can do," says Geoffrey W. Hoon, 43, a Labor member of Parliament.

FADING HOPES. Business leaders seem relaxed about a potential change of government. Some still fear Labor might return to its old tax-and-spend ways. But many seem prepared to give Labor the benefit of the doubt on economic policy. "We are much more confident than we previously have been that there is not going to be a major fork in the road" if Labor wins, says Adair Turner, director general of the Confederation of British Industry.

Major, 53, is pinning his dwindling hopes of reelection on appearing more statesmanlike than boyish Labor leader Tony Blair, 43. And he is trying to fan fears that a Labor government would kill the current, robust economic expansion. Major warns that "Britain could be just weeks away from a mid-summer nightmare" of tax and interest-rate hikes if Blair

gains power. Tory billboards show a family crying red tears of blood because Labor has increased their mortgage payments.

So far, there is no sign that these scare tactics cut any ice. Labor's economic brain trust has managed to reassure Britain's haves that they have little to fear. Labor has promised not to increase personal taxes for the life of the Parliament. Modes pledges to have-nots and its own left wing haven't hurt Labor either. The biggest is a pledge to levy a windfall-profits tax of up to \$6 billion to \$8 billion on privatized utilities to fund a job program. Critics object that it would punish current shareholders rather than those who harvested big gains years ago.

Labor also is vowing to introduce a minimum wage, although they don't say how high it would be. Unions want \$6.40 an hour, a level unlikely to be set as it could snuff out jobs.

The Tories have yet to score enough hits on Blair to wipe away his perennial smile or cut into his roughly 20% lead in the polls. That could change if advertising maestro Maurice Saatchi's attack ads begin to work. The Tories have a much bigger campaign cash hoard. But Stefano Hatfield, editor of *Campaign*, the London ad-industry trade magazine

doubts the Tories can make full use of it in the available time. Paid radio and TV political advertising is banned in Britain.

The Tories have little hope of winning unless they close ranks and restore their own unity and battered credibility. There is no sign that's happening. Instead, factional fighting is deepening, with right-wingers such as John Redwood readying a push to seize control of the party. And voters now are hearing allegations from a former party treasurer that Major once sent him to collect an \$810,000 donation from a Greek shipping tycoon. It all is bringing a Labor victory closer.

By Stanley Reed in London



SCARE ADS: No help for the Tories yet

GLOBAL WRAPUP

SWISS FUND COULD BACKFIRE

► For months, Switzerland and its banks have appeared increasingly hard-hearted and mean-spirited as revelations about their handling of Holocaust victims and their assets unfolded. But on Mar. 5, the Swiss government attempted to reverse that perception with the announcement of a huge \$4.7 billion humanitarian fund. The bulk of the cash would come from selling off part of the estimated \$8 billion gold hoard held by the Swiss National Bank.

The gesture, which is designed to stem a rising global tide of criticism, could easily backfire on its sponsors. For starters, the fund isn't earmarked for Holocaust victims. It would be widely available to "victims of poverty and catastrophes, of genocides and other serious human rights abuses," says Swiss President Arnold Koller. Meanwhile, the commercial banks, which operated most of the Jewish accounts, have committed only a modest \$68 million so far.

But the biggest risk to the scheme comes from right-wing populist politi-

cian Christoph Blocher. He is threatening to call a nationwide referendum on the issue. Blocher has wide support in the rural areas of German-speaking Switzerland. In 1992, he used it to devastating effect in another referendum to defeat Swiss government attempts to join the European Union. Swiss government lawyers hope to avoid such voter scrutiny now by setting up a special form of trust fund. If they fail, Blocher could quickly turn the plan into a public-relations nightmare.

By John Parry in Geneva



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*Fuzzy Zoeller with
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—Schwab's advice to investors—

IF YOU DON'T HAVE A STRATEGY FOR RETIREMENT, CONSIDER THIS A WAKE-UP CALL.

Investing for retirement is the most important decision many people will ever do. So it's no wonder that so many of them just haven't put all the pieces together.

There may have been IRAs or two, 401(k) plans, and funds in a money market account. But what they don't have is a disciplined approach that can bring order and purpose to their investments.

BEGIN WITH A STRATEGY, AND TAKE IT FROM THERE.

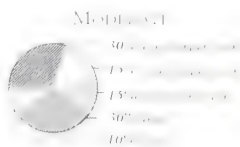
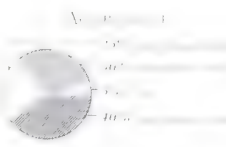
By making productive use of the money you set aside for retirement, you stand a better chance that your later years will be comfortable ones. But how do you go about it?

Schwab's answer: a well-conceived investment strategy that takes into account such things as your time horizon, investment objectives and tolerance for risk (see chart).

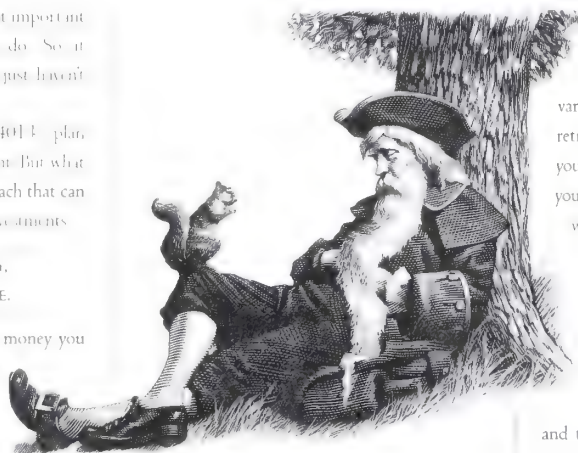
If you're years away from retirement, you may want to be more aggressive and invest in equities, directly or through mutual funds. While equities entail a level of risk, no other form of investment has matched their performance over the past 70 years¹.

If you're closer to retirement, you may want to pursue a more conservative strategy that emphasizes fixed income investing. Bonds and bond funds typically deliver consistent income without the volatility that characterizes equities.

INVESTMENT STRATEGIES



These are sample allocations. Please view them only as broad guidelines.



If you aren't paying attention to your retirement accounts now, it could all seem like a bad dream later on.

Of course, no one can guarantee that by actively managing your retirement investments, you're going to produce great results. Your investment skills, ability to process information and stock market performance will all play a role in the outcome.)

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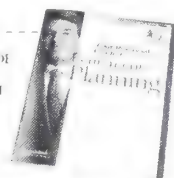
We offer 401(k) services through both SchwabPlanSM and other recordkeepers, and a variety of small company retirement plans. And if you don't want to manage your investments yourself, we can even connect you with professional investment managers through Schwab AdvisorSourceSM.

Needless to say, all our retirement programs come with things you expect from Schwab. Like attentive service and tools to help you make your investment decisions.

OUR SUGGESTION: DON'T PUT IT OFF ANOTHER DAY.

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The New World of Personal Finance





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**Financial
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The New World of Personal Finance

The Return of the Little Guy

New attitudes, new public policies, and new technology have come together to create a new world of personal finance, a world "in which individuals have returned to center stage," says Dee Slavutin, president of Stern Slavutin 2Inc., a New York insurance agency. In the late 1960s, "many providers of financial services began to lose interest in the little guy," Slavutin says. Instead, they saw big opportunities in catering to big institutional investors and corporate purchasers of financial services.

While middle class investors may have been the Rosencrantz and Guildenstern of financial services in the 1970s and '80s, now they're the new masters of the universe. The renewed interest in the average household was underscored in early February when Morgan Stanley & Co., the investment banking descendent of the House of Morgan, announced it was merging with Dean Witter Discover. Dean Witter has long been as firmly focused on the middle class as Sears Roebuck, which once owned it. But the merger reflected the extent to which major issuers of securities and their investment bankers want and need access to the vast collective financial power of American households.

The same signal was sent a month earlier when Salomon Brothers, a major institutionally-oriented securities firm agreed to sell more of the stock issues it underwrites to brokerage customers of Fidelity Investments. And before that Prudential Securities eagerly bought 20,000 brokerage accounts of smaller investors from Lehman Brothers Holdings Inc. The accounts, which typically had less than \$25,000 in assets, joined some 2.2 million other accounts at Prudential.

What has happened is that more and more Americans have become active investors. And in the aggregate,

the millions of Americans now in the market far outweigh the clout of multibillion dollar pension funds, giant insurance companies, and other institutional investors.

Average Americans are being drawn to securities investing by the long bull market in stocks. "It's hard to want to sit there with a bank CD when you see what the stock market has been doing for the last decade," notes Ellen Rogin, a CPA and certified financial planner who is president of Strategic Financial Designs in Chicago. The stock market has climbed some 70 percent

in the last two years, and Gordon Snyder, executive vice-president of American Century Investment Services, Inc. in Kansas City, says, "We haven't had a real market correction to slap people around a little bit, so there's a pretty positive attitude toward continuing to invest."

Investing has also assumed a higher priority among many Americans because they are being pushed to assume greater responsibility for their financial life by both the government and their employers. There is growing concern that Social Security's financial crisis



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Meanwhile, your employer's not going to support you very lavishly either. Downsizing, right sizing, reengineering, and reinventing the corporation have all come down to the same thing in terms of jobs: here today, gone tomorrow. And the loosening of the social contract between employers and employees has also extended to retirement benefits. Fewer employees can look forward to participating in cushy defined benefit plans. More and more workers are part of defined contribution plans, in which your retirement benefits will reflect whatever investment results have been attained by the money you and your employer have contributed.

You can and must choose the investments, and "This is bringing a whole range of people into the markets for the first time," notes Debbi Mandelker, first vice-president in the Group Employee Services Division of Merrill Lynch. These days, many "regular guys" who once talked about the stock market being only for the rich, now find themselves with a five figure portfolio of stocks and bonds and a burning desire to check closing market prices in the newspaper.

"This shift to personal responsibility is going on in a big way," says American Century's Snyder. He adds, "People have sensed this, and

they're accepting it." Many observers are surprised to see this message being taken to heart by so many members of the celebrated baby boom generation, the population cohort born between 1946 and 1964. As they get older, the boomers' priorities have changed from sex, drugs and rock and roll to decidedly more sedate pastimes. The generation that once spent like

New Technologies,

Internet access, and

a host of new financial

choices have reshaped

the way people are

managing their assets.

it was going out of style is increasingly acting as if spending really has gone out of style. Instead, saving has gone up markedly among this group. They're saving to pay for their children's college education and for a rainy day, but most of all, they're saving for their own retirement.

Because of these changes on the

demand side of investing, the supply side has also been undergoing a transformation. "There has been an explosion of choice," says Snyder. For a growing number of investors, both new and old, the most popular investment vehicle is the mutual fund. "More people are deciding they can't pick stocks as well as they think professionals can," Snyder says, and he adds, "There's so much choice in the mutual fund market, there's no reason to go out and buy individual stocks."

Last year, Americans put a record \$235 billion into mutual funds, up from \$22 billion in 1990. Today more than 63 million people own mutual funds, up from 38 million only four years ago.



How traditional insurance works:

All you have to do to get this is die.

Traditional life insurance products were designed over a century ago to offer one primary benefit. A lump sum of cash in the event of an early death.

But a funny thing happened on the way to the 21st century. People started living longer. Today, it's no longer, "I'm worried about dying young." It's, "What if I outlive my money?"

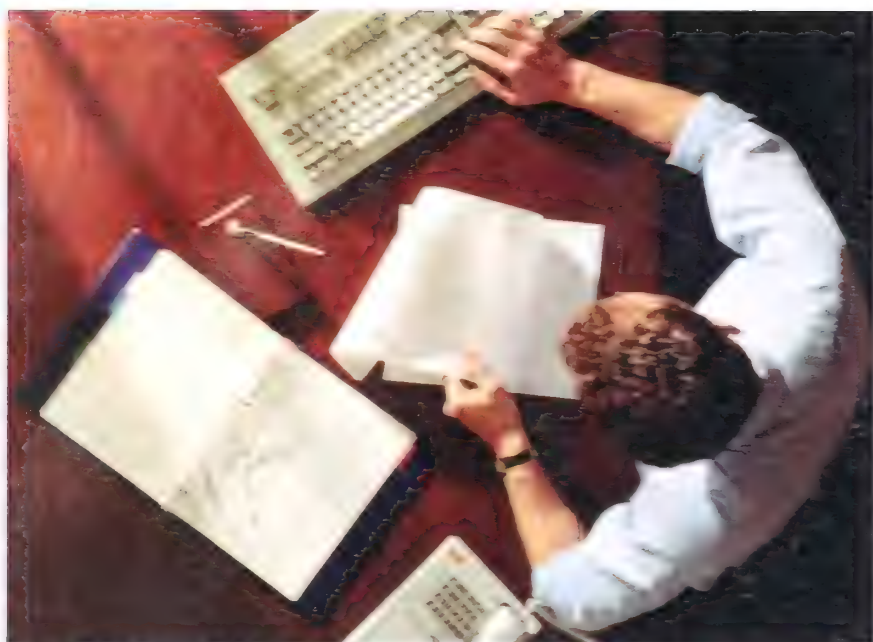
Yet, while the needs of insurance customers have changed, most insurance companies continue to push outdated products that emphasize death benefits and offer modest retirement income as an afterthought.

LifeUSA has a new idea—called "Universal Annuity Life." The first life insurance policy that not only covers against early death, but also rewards our policyholders with a guaranteed retirement income that can be *two to three times greater* than traditional insurance policies.

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November 11, 1940:
Code-named "Quad," two
prototype vehicles are delivered
to Camp Holabird in Maryland
for testing. U.S. Army officials
promptly order 1,500 more.



October 30, 1996:
Petersen's 4-Wheel & Off-Road
hails all-new 1997 Jeep Wrangler as
4x4 of the Year. (Fifth time the title is
bestowed on a Jeep vehicle—more
than any other brand.)



February 12, 1996:
Bowing to Jeep loyalists,
Chrysler engineers come
full circle and return
round headlights to the
all-new Jeep Wrangler.

It's no coincidence that today's Jeep Wrangler bears an unmistakable likeness to the original Willys MB. In fact, we at Chrysler Corporation wouldn't have it any other way. Over the years

we've continually honed, finessed, and refined the Jeep Wrangler in more ways than we can count. But we did it without compromising its indomitable Jeep character. Because as the cars

Visit our World Wide Web site at <http://www.chryslercorp.com>, or call toll-free 1-888-GREATCARS.
Chrysler Corp. The Hearst Corporation.

Always wear your seat belt. Jeep is a registered



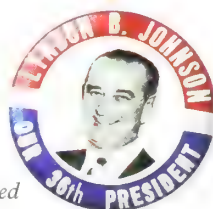
April 23, 1944:
Theories on the origin of the Jeep name prompt a *Washington Post* editorial. One unlikely view holds it was coined after the Popeye comic strip character, "Eugene the Jeep." Others believe it was short for "GP," or general purpose. Either way, the name stuck.



June 16, 1945:
Willys MB changes into civilian garb with the introduction of the Willys Universal. Modifications include removing the gun holster from the windshield.



August 29, 1953:
California's Rubicon Trail plays host to the first-ever Jeep Jamboree. Later that evening six Jeep owners perform an impromptu cancan number around the campfire.



January 20, 1965:
Every float in the Presidential Inaugural Parade in Washington, D.C., is pulled by a Jeep CJ5. Overseas, Jeep vehicles are marketed in more than 100 countries.



April 30, 1995:
The new 1997 Jeep Wrangler is subjected to rigorous testing for contingencies that range from high-speed desert driving in Saudi Arabia to Alaskan temperature extremes.



August 5, 1987:
Chrysler Corporation acquires the Jeep brand. The legend continues.



March 12, 1986:
First Jeep Wrangler rolls off the assembly line. The automotive press cheers, adding, "It's hard not to gush."

maker of an automotive legend, we know that what you don't change is just as important as what you do change. It's how you think when great cars and trucks are what you're about.

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 CHRYSLER CORPORATION

order entry system would get you a ten percent discount. But if you place your order electronically through E-Schwab, the transaction will cost you \$29.95. E*Trade will do many of the same transactions for around \$15 and other Internet brokers will do it for even less, although there are sometimes additional handling fees.

Some investors are holding back because they worry about security on the Internet. Internet fans say investing this way may take getting used to, but it might even be better than some of the old ways. After all, it's probably easier to confuse "buy" and "sell" or "Pepsico" and "Texaco" in a telephone conversation with a broker than when you are asked to

that's 80% owned by Equitable Life, is backing PC Financial Network, which permits electronic trading, and last October, American Express created InvestDirect, another Internet trading vehicle. Most other major full service brokers offer information on the Net, but they're not eager to facilitate trading since their business is built on brokers developing a personal relationship with customers.

An additional role for the Internet is being carved out by Atlas Online, which has launched NetPath to help individual investors find and evaluate potential investment advisors. "What had been going on was that at 7:30, when you're eating dinner, a broker calls you to solicit your business," says Pradeep K. Walia, founder and CEO of Atlas, "but now, we're turning the tables on them, and empowering the individual investor to choose the right professional."

Amid all these changes in investment mechanisms, there are now fewer people sitting around brokers' offices watching the Quotron screens while they buy and sell stocks. Those who still like to invest this way are increasingly older people who don't offer brokerage firms impressive long-term growth prospects.

The result is a revolution unfolding in brokerage firms as they struggle to keep the small investors. Traditionally brokers suggested transactions, and then levied fees on those transactions. That system gave brokers a powerful incentive to suggest buying or selling something rather than maintaining the status quo, and some brokers might even be tempted to churn the account — suggest excessive buying or selling — to generate sales commissions. As investors have become

more wary, brokers are altering their fundamental pricing mechanisms.

Merrill Lynch has played a leading role in changing the basis of an individual broker's commissions from a percent of transaction fees to a percentage of assets in a client's account. Merrill's pilot program has been highly successful: Fee-based

programs quickly grew to represent more than \$30 billion out of the \$830 billion that Merrill Lynch customers have in their accounts. And the firm's senior executives expect the propor-

tion to grow rapidly as Merrill seeks to emphasize financial planning rather than securities transactions.

In addition, instead of focusing exclusively on their proprietary mutual funds, with their steep front-end sales commissions, Merrill Lynch and Smith Barney have recently begun to compete with the mutual fund supermarkets by offering a wider range of funds, including no-load funds. Instead of a sales charge, the securities firms get paid by imposing a 1.5 percent charge on assets in the client's account.

Similarly, a number of brokerage firms are promoting "wrap accounts" in which an investor's funds are turned over to outside investment advisors or invested in mutual funds, all chosen by the client or his or her broker. Again, the broker gets paid by assets in the account, not by generating transactions. If the assets in the account increase, both the client and the broker should be happy, providing a healthier alignment of interests than fee structures that require transactions.

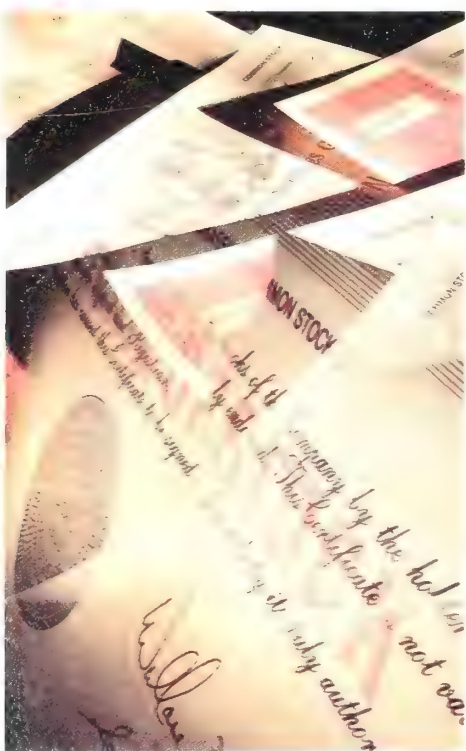
What has become clear is that many people want investment advice, they just want to make sure

The old line brokers are

keeping a very careful

eye on the expanding

role of the Internet.



type in what you want to do and then hit a key to confirm what the screen says.

The old line brokers are keeping a very careful eye on the expanding role of the Internet. Some are dipping a toe into these waters. Donaldson, Lufkin & Jenrette, a big institutional brokerage firm

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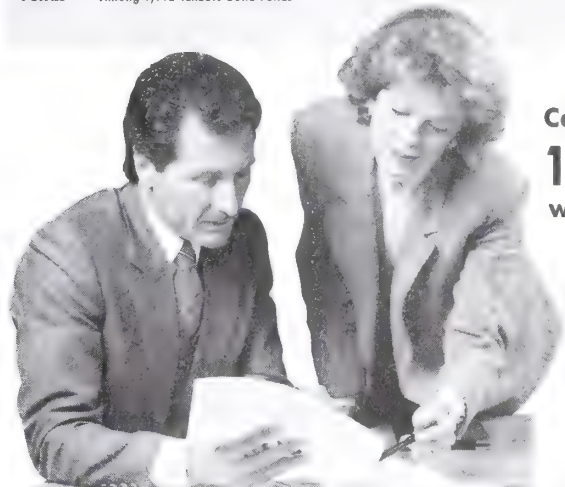
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Fund Type	Overall Morningstar Rating as of 1/31/97	Mutual Fund (Class A) Investment Objective	Fast Fund Facts
U.S. Stock Funds	★★★★	Prudential Equity Fund Long-term growth of capital	Applies a "deep value" investment style to select a well-diversified portfolio of domestic common stocks.
	★★★★ Among 1,858 Domestic Equity Funds	Prudential Equity Income Fund Current income and capital appreciation	Seeks above-average total returns and below-average volatility by investing in stocks believed to be undervalued in the market.
U.S. Bond Funds	★★★★★	Prudential High Yield Fund Maximize current income	Takes a diversified approach to seeking high current income and solid credit quality from non-investment grade corporate bonds.
	★★★★★ Among 1,112 Taxable Bond Funds	Prudential Municipal Bond Fund/High Yield Series To provide the maximum income free from federal income taxes*	Uses extensive credit analysis to select a diversified portfolio of investment grade and non-investment grade municipal bonds.
Global Stock Funds	★★★★ Among 393 International Equity Funds	Prudential World Fund/Global Series Long-term growth of capital and income as a secondary objective	Uses a broadly diversified, aggressive strategy for uncovering growth from stocks and other securities around the world, including the U.S.
Global Bond Funds	★★★★★ Among 1,112 Taxable Bond Funds	Prudential Global Total Return Fund Seeks total return	Invests strategically in bonds from governments, government agencies and corporations in countries around the world, including the U.S.



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it's dispassionate, disinterested advice. The rise of 401[k] plans "really heightened the importance of good solid investment education and financial information for people to assist them in making the right decisions about how much to invest and how to invest it," notes Merrill's Debbi Mandelker.

Employers are eager for employees to participate in these plans, but loathe to provide advice lest they incur legal liability. As a result, Mandelker says, "There is a great deal of sensitivity about staying on the appropriate side of the distinction between advice and educating employees about making their own investment decisions." But with employers leery of offering explicit instructions, many people still need help, not only in formulating their 401[k] choices, but in relating those choices to the rest of their assets.

The delivery of investment advice has been turned on its head. Originally brokers gave free advice bundled in with the cost of investment transactions. Then, discount brokers offered cheap transactions but no advice. Now comes the synthesis: advisors who are increasingly likely to be paid with fees rather than commissions. They help investors navigate the increasingly crowded investment landscape without being biased by commissions.

While full service brokers are responding to this seachange by

increasingly basing commissions on assets rather than transactions, discount brokers are moving to offer advice. For example, Seip says, "Schwab is moving to expand its franchise beyond the fiercely independent investor to more mainstream investors who might need some help in asset allocation or mutual fund selection to get started. We offer an ability to hook these people up with a fee-only advisor."

No matter what kind of institution houses these advisors, American Century's Synder says, "The advice givers are dramatically improving their selection and their pricing options and flexibility." The bottom line is that the more money people have invested, the more advice they

want. "We have studies that show that nine out of ten individual investors who have invested assets of more than \$100,000 choose to use a financial professional," notes Pradeep Walia of Atlas Online. He adds, "When play money becomes real money, people go looking for help."

Advice is becoming increasingly important because two other major investment services, execution and information, are becoming commodities. Investors are awash in information, from Wall Street Week to America Online to the expanded personal finance columns in many newspapers and magazines. And deep discount brokerage firms

as well as the Internet have reduced the cost of actually executing a securities transaction to levels that are often barely noticeable.

As securities investments have grown more attractive, the life insurance industry has been striving to keep pace. The role life insurance plays in personal finance is entering its third era. At first, life insurance was purchased to pay for a decent burial, to make sure you didn't burden your relatives with your final costs or face the ignominy of ending up in a potters field. Then it became the principal means of providing your family with financial protection if the breadwinner died unexpectedly. Now, says Robert MacDonald, chairman



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and CEO of LifeUSA Insurance Co., "Companies have begun to develop products which are geared to living as well as dying. These products provide a stream of income if you live as well as a lump sum benefit if you die."



Insurance is supposed to provide protection against financial risks, and while dying too soon is one major risk we face, another risk more and more people fear is outliving their money. As a result, a growing array of life insurance products make it possible to protect against both of those risks.

In many of today's life insurance products, MacDonald notes, "The death benefit portion really has become a commodity type product, so if someone is really concerned about the financial impact of dying young, then they can get a pretty good deal by buying term insurance on a commodity basis — find the cheapest policy and buy it." But, he says, "The other side of the coin is that insurance companies have developed

products that can be very creative, and very competitive to other alternatives, including investments. They can fill a very important role in any overall investment plan."

Variable and universal policies offer people choices in how much they want to put into their policies and how they want their funds invested. These funds can then be tapped later on to provide a lump sum for purchasing a retirement home or a stream of retirement income. Life insurance is an attractive investment vehicle, because the "inside buildup," the accumulation of funds inside a policy structure, is

not subject to taxes, in contrast to other personal investments. However, MacDonald and others warn against using insurance policies purely as an investment. While there are tax advantages, there are also the costs associated with the insurance coverage, and if you don't need that coverage these can be expensive ways to invest.

Moreover, MacDonald notes that some companies are offering insur-

**Life insurance is an
attractive investment
vehicle.**

ance that has a critical illness or long-term care benefit. These policies specify that if someone suffers a heart attack, for example, they will get 25% of the face amount of the insur-

ance policy immediately rather than at death. Or if they must be confined to a nursing home, they will be able to use up to the face amount of the policy to pay the nursing home costs.

Amid the proliferation of insurance products, MacDonald says, "The positive side of it is there are better products — they're cheaper and more flexible. The downside is that it's more complicated and easier to make a mistake. In the past, it was plain vanilla; everybody was selling the same product and everybody had to find an agent they liked. Now there has been significant

changes in product structure and design, and benefits, and so it is worthwhile to shop around."

Dee Slavutin of Stern Slavutin notes that life insurance is also playing an increasingly important role as a mechanism for deferred compensation plans. A few years ago, legislation put limits on the amounts of money that people could put into so-called tax-qualified plans, Slavutin says, "so immediately there was a shift to non-qualified deferred compensation, and the major funding vehicle for deferred compensation is life insurance." Variable life insurance products provide "the performance of mutual funds wrapped with an insurance death benefit."

And, she adds, "There is a whole other use of life insurance products in the estate planning area." In the case of closely held or family-owned businesses, for example, insurance is being used to make sure the surviving owners have the funds to pay estate taxes or meet the terms of buyout agreements. The goal is to avoid the need to sell the business in order to raise funds for taxes.

Insurance companies have also been pepping up their annuity products. The traditional appeal of annuities is that they permit money to be invested on a tax-deferred basis — the money you earn isn't taxed until you take it out years later, when you might well be in a lower tax bracket. However, many fixed rate annuities didn't offer attractive returns. The response has been variable annuities, in which you get whatever return the insurance company earns on your money. You not only share the returns, you can pick the investment assets. "One of the things we're seeing in the

annuity market is a wider range of investment options," says Denny Roberts, senior pension consultant at The Principal Financial Group. Many annuities enable you to use the annuity vehicle to invest in popular mutual funds.

This is appealing to investors who prefer that their assets be managed by a brand name mutual fund rather than a faceless insurance investment department. Meanwhile, the mutual funds delight in having another distribution channel, in addition to brokers, advisors and 401[k] plans. Fidelity is the leader in this arena. Its funds are the investment locomotives for some 60 variable annuities, containing some \$20 billion in total assets. And recently Fred Alger Management of New York was managing nearly twice as much in annuities as it does in regular mutual funds. Because of various fees levied by the insurance company and the mutual fund company, the cost of investing this way can be steep,

but on the other hand, the gains accumulate on a tax deferred basis.

For most people annuities are associated with saving for retirement. And that task has become the focal point for more and more investors. It's not only a result of the question marks about Social Security and the risks associated with 401[k] plans.

The amount of information in the press in the last year or two has really increased the awareness of retirement issues," adds Denny Roberts. Many people are realizing that retirement is not a brief span between turning 65 and meeting your maker.

In many cases, retirement will last 20 or 30 years; and it will be a period of activity. The principal symbol many people see for their retirement is not the rocking chair and the cardigan sweater but the golf club and the cruise ship schedules, the keys to a condo in Florida

or Arizona. But all that takes money. For many people, it's the third big financial hurdle: first comes saving for a house, then paying for their children's college education, and then saving for retirement. The books say you should be doing all three at once, but demographic trends make it harder. People are

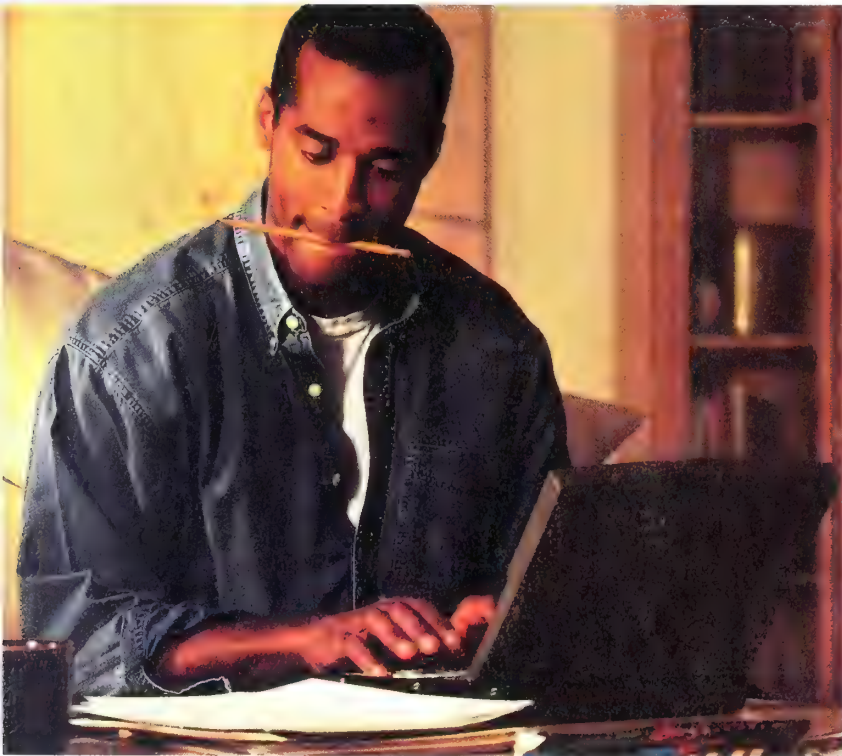
getting married later in life than they were a few decades ago, and they're also having children later. That means they're paying college tuitions later in life, leaving less time to focus on retirement savings.

The result is that

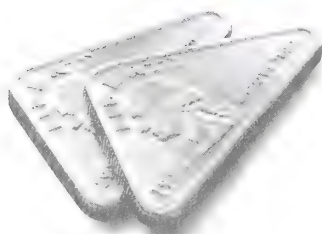
many Americans need their retirement assets to work harder than ever for them. To be sure, those assets are piling up. 401[k] plan assets have climbed from \$55 billion in 1984 and \$345 billion in 1991 to nearly \$800 billion at the end of last year. And there are all sorts of people with five and six figure accounts.

But six and seven figure sums are becoming the prerequisite for what many people regard as a comfortable retirement. To get there, Rogin says, more Americans are realizing, "They have to be smart investors; they can't be passive." It's not easy, she says because, "The boomers tend to be stretched in lots of directions, with their work and their family and possibly taking care of their parents. The amount of time they have to spend on their investments may be non-existent." Nonetheless, a growing number of Americans are carving out time to manage their finances more carefully, Rogin says, because "they're realizing the value of investing well over the long term."

This special advertising section was written by Sydney David.



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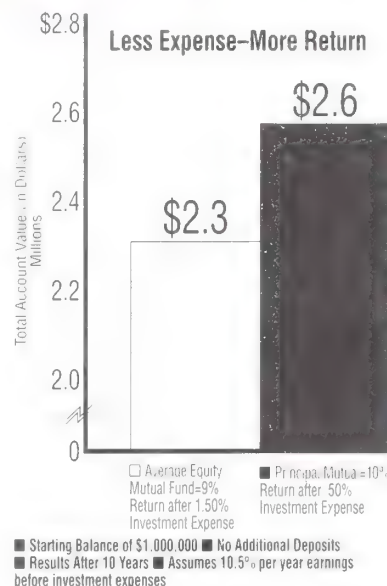
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ANATOMY OF A BANKRUPTCY

Why were warning signs at MobileMedia overlooked?

Just a year ago, MobileMedia Corp., the country's second-largest paging company, was transmitting nothing but good news. A successful initial public offering had returned hefty paper profits to stockholders, new customers were signing on at a blistering pace, and two lightning-fast acquisitions costing more than \$1 billion were winning praise. On Jan. 4, 1996, then-CEO Greg M. Rorke called MobileMedia's recent purchase of BellSouth subsidiary MobileComm "a milestone in the personal communications industry."

Millstone was more like that. In the end, integrating the two companies proved too much for MobileMedia to handle. On Jan. 30, the \$667 million company filed for bankruptcy. While it is preparing to emerge from Chapter 11, MobileMedia will face a Federal Communications Commission investigation into possible improprieties in the licensing process, as well as shareholder lawsuits and bitter creditors.

CUTTHROAT. In part, MobileMedia's decline mirrors that of the paging industry, which has lost some \$4 billion in market capitalization since September, 1995, because of cutthroat competition and new technologies. But MobileMedia's woes go deeper. It suffered from poor management, a disastrous acquisitions strategy, and a disengaged board. "It's a tragedy," says one creditor. "It should not have happened."

But it did. And when MobileMedia crashed, nearly everyone connected with the Ridgefield Park (N.J.) company got burned, including executives, lenders, shareholders, and analysts who talked up MobileMedia's stock as it fell from a

to avert disaster. H&F, which sat on paper profits of \$347 million in the months after MobileMedia's June, 1995, IPO, referred all questions to a MobileMedia spokesman. The three former CEOs either could not be reached or declined to answer most questions publicly.

In theory, the acquisition strategy made sense. From a fragmented, local industry, paging was quickly becoming a business of scale. Since 1982, the top 10 companies have moved from a 28% market share to an estimated 70% in 1996. Convinced they needed an executive with broader experience to make MobileMedia a dominant player, the board brought in Rorke in October, 1994, replacing CEO Charles J. Payer Jr. With no telecommunications experience, Rorke, who had turned around Washington Post Co.'s Kaplan Educational Centers Ltd., was supposed to bring strategic thinking to his new job.

In August, 1995, Rorke completed his first acquisition, snapping up Dial Page Inc.'s paging operations for \$189 million. That was just a warmup. A month later, the company announced it would buy BellSouth Corp.'s paging arm, MobileComm. The \$930 million deal doubled MobileMedia's subscriber base to more than 4 million and

A distant board, costly acquisitions, and mediocre management were a formula for failure

high of 29% in September, 1995, to about 1 in March. Their enthusiasm, typical of bull-market excess, continued long after glaring evidence to the contrary should have sobered them up.

One of the biggest hits to reputation and pocketbook was taken by Hellman & Friedman, the highly regarded San Francisco-based investment firm that made its name taking Levi Strauss & Co. private in 1988. H&F poured \$180 million into MobileMedia, owned a controlling interest in the stock, and dominated the board, which changed CEOs three times in three years but still failed

made it No. 2 in the industry, behind Paging Network Inc. Although MobileComm's subscriber growth rates had slowed, investors were thrilled: On Sept. 15, MobileMedia stock hit its all-time high of 29%.

There was no shortage of heavy hitters willing to help fund the deal. In November, the company raised \$355 million through a secondary offering at 23¢ a share led by Lehman Brothers Inc. and issued \$250 million in subordinated debt. The next month it opened a \$750 million credit line with a Chase Manhattan-led group of banks, pushing debt





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to nearly five times cash flow at the company, which lost \$44 million in 1995. Says Glenn W. Marschel, CEO of Paging Network: "They overpaid."

Even worse, merging the two companies proved tougher than anyone expected. A customer service center in Dallas, one of two sites where Rorke hoped to consolidate MobileComm's 26 centers, choked on its share of the company's 1.8 million new subscribers. Operators sat around waiting for calls that were never patched through, and customer service rapidly deteriorated. "You could page yourself and it would take seven to 10 minutes," says Kenneth A. Toudouze, a Dallas securities analyst and MobileMedia customer.

Former executives acknowledge they

line of credit. Predictably, missed supplier payments followed, including some to its primary pager supplier, Motorola Inc.

That finally kicked the board into action. In late July, H&F general partners John L. Bunce Jr. and Mitchell R. Cohen flew to New Jersey and, insiders say, fired Rorke. MobileMedia says he resigned. "The reaction was to shoot [Rorke]," says a creditor. "That caused the company to go into a tailspin." Two other top execs soon followed. In the aftermath, the offering was halted, and H&F heavyweight F. Warren Hellman joined the board. Board member David A. Bayer, a frequent co-investor with H&F, became acting chairman and CEO.

Two weeks later, Bayer announced

equipment in November and MobileMedia filed for Chapter 11 on Jan. 30.

The aftershocks have been felt far and wide. Although creditors have approved payments to Motorola and a few other key suppliers, others were not so lucky. Greg L. Reyes, CEO of Wireless Access Inc., a Santa Clara (Calif.) developer of next-generation pagers doesn't expect to see the \$700,000 MobileMedia owes his company anytime soon, part of the reason Wireless postponed its own IPO. Unsecured creditors hold some \$500 million worth of bonds now trading at less than a fifth of their original value. Shareholders have filed suit against MobileMedia and Lehman alleging the brokerage was too upbeat about the paging industry. Lehman an

MOBILEMEDIA: TROUBLE ON THE LINE



underestimated the problems. And, in the rush to meet Wall Street's growth expectations, MobileMedia kept adding new customers: 300,000 in the first half of 1996 alone. Meanwhile, customer turnover rose to 3.8% in the first quarter, from 3.6% in 1995's fourth quarter. Despite the growing difficulties, former executives said they had no signal the board was worried.

RED FLAG. The numbers should have told the story: MobileMedia's operating cash flow fell from \$50.5 million in the fourth quarter of 1995 to \$43.6 million in the first quarter of 1996. Nevertheless, MobileMedia's May 13 press release—reporting record first-quarter revenues—was titled "Acquisition integration running ahead of schedule."

So, it seems, were expenses. Just three weeks later, on June 6, MobileMedia announced a private stock offering to help pay skyrocketing integration costs that helped push MobileMedia's overhead expenses up 50% in the first quarter. Shares fell 19%, to about 14. On June 26, with cash flow stalled, MobileMedia was forced to ask bank lenders to loosen the covenants on its

CEO No. 3: Michael K. Lorelli, then president of the Americas Div. at Tambrands Inc. and a former PepsiCo Inc. marketer. The choice of a marketing specialist surprised some, given the financial crisis. Still, analysts remained upbeat. In the last week of August, both Smith Barney Inc. and Lehman reaffirmed their buy recommendations. But it soon became obvious that Lorelli was a bad fit. "The agenda of the CEO's office changed very substantially since my first conversations with the board," he says. "Lorelli was a deer in the headlights," says a supplier. On Nov. 19, after less than three months on the job, Lorelli resigned, collecting an exit package of almost \$1 million.

Before leaving, Lorelli dropped another bombshell. On Sept. 27, the company announced that it had discovered "certain errors" in its FCC licensing applications. In applying for approval to expand, the company had overstated the number of transmitters it had in place, a violation of FCC rules that could result in heavy fines. If nothing else, the errors show the degree of chaos at MobileMedia. Motorola stopped shipping

analyst John L. Bauer III left the brokerage in October and could not be reached for comment.

While MobileMedia still has more than 4 million subscribers, its challenges are formidable. Rivals have swooped in to capture market share. Forced to abandon plans to upgrade its technology, the company risks falling behind. Chief executive No. 4, Ronald R. Grawert, who was hired from GTE Corp. on Feb. 10, has a strong technology background, but that may not be enough. "There's been a gap in serious management," says one analyst. "It's a real mess."

In the end, the H&F-dominated board remains the only constant at MobileMedia. "It was said what they touch turns to gold," says a former executive. "I'm sure they're not proud of what's happened." In a statement, Bayer, who is still chairman, acknowledged mistakes. "In retrospect," he said, "the timeline for the integration of the two companies was too aggressive and there were differences between the companies that were not fully accounted for." Translation: We blew it.

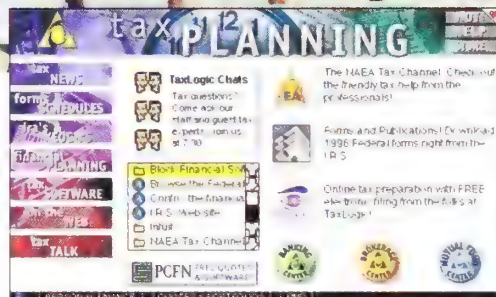
By Jennifer Reingold in New York

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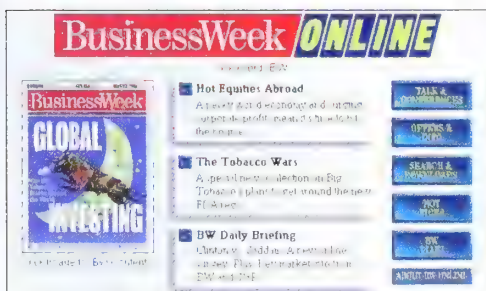


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TWO-TIER MARKETING

He was the little tan bear millions of kids grew up with. He tagged along with Christopher Robin, stuck his hand in the honey pot, and figured out new ways to cause harmless mischief. And no matter where children came from or what their parents did for a living, the name Winnie-the-Pooh conjured up a single image gleaned from the classic books by A. A. Milne.

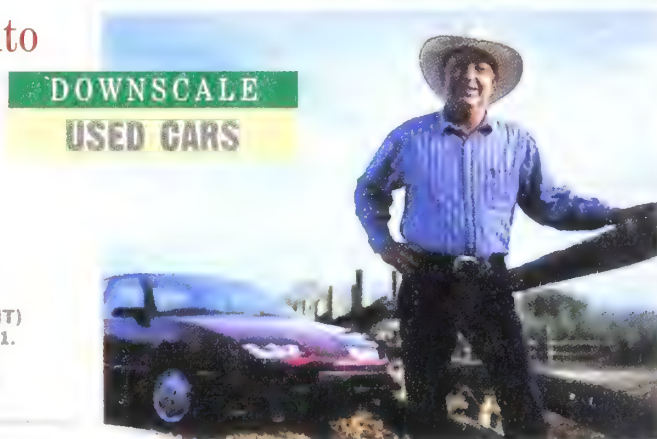
Today's kids, however, won't have that common touchstone. These days, their image of Pooh depends a lot on where they live and how much money their parents make. That's because the Walt Disney Co., which owns the rights to Milne's make-believe menagerie, is carefully marketing two distinct Poohs. The original line-drawn figure appears on fine china, pewter spoons, and pricey kids' stationery found in upscale specialty and department stores such as Nord-

strom and Bloomingdale's. The plump, cartoonlike Pooh clad in a red T-shirt and a goofy smile, adorns plastic key chains, polyester bedsheets, and animated videos. It sells in Wal-Mart stores and five-and-dime shops. Except for at Disney's own stores, the two Poohs do not share the same retail shelf.

"TIFFANY/WAL-MART." It's a strategy that more of America's biggest marketers are adopting—and for good reason. The middle class, which once seemed to include almost everyone, is no longer growing in terms of numbers or purchasing power. Instead, it's the top and bottom ends that are swelling. The statistics are by now familiar: Since 1980, the wealthiest fifth of the population has seen its income grow by 21% while wages for the bottom 60% have stagnated or even dipped, according to Census Bureau data. Despite small gains by the middle class in the current recovery, the '90s have

General Motors' Saturn unit, an auto marketing leader, is luring buyers with "pre-owned" cars

SATURN'S USED CAR AD (RIGHT) AND A USED 1996 SATURN SC1. THE AD EASES FEARS ABOUT BUYING A SECOND-HAND CAR



Companies are tailoring their products and pitches to two different Americas.

en a greater polarization of income in the U.S. than at any point since the end of World War II, Census Bureau statisticians say.

While politicians and social critics squabble over why this has happened and what, if anything, should be done about it, marketers are taking action. Saatchi & Saatchi Advertising Worldwide warns of "a continuing erosion of our traditional mass market—the middle class." PaineWebber Inc. has ad-

vised investors to follow a "Tiffany/Wal-Mart" strategy and "avoid companies that serve the 'middle' of the consumer market." And Roper Starch Worldwide, the New York-based polling firm, has presented clients with a report called *Two Americas*, suggesting ways to sell to a society divided along economic, educational, and technological lines.

Think of the restaurant business as a metaphor for the

economy, says Lester C. Thurow, an economist and former dean of Massachusetts Institute of Technology's Sloan School of Management. "The \$4 meal is doing all right, and the \$50 meal is doing all right. The \$20 meal is in trouble."

That implies a dramatic shift in the way consumer goods are designed, advertised, and sold. From the dawn of the modern ad agency early in the century through the golden age of mass-marketing in the 1950s and 1960s—when returning GIs bought truckloads of near-identical toys and TV sets for their Baby Boom offspring—marketers have set their sights squarely on that metaphorical \$20 meal. America's most venerable brand names, from Levi's jeans to Ivory soap, were built on the premise that a reasonably good product, properly packaged and hyped, could be sold to almost anyone.

Even through the me-generation of the 1970s and the ac-

Cover Story

UPSCALE NEW CARS

In the '90s alone,
the median price of
a new car has
risen 22% in
constant dollars,
says J. D. Power

A TV AD FOR LEXUS (LEFT) AND
THE '97 LX 450. AUTO MAKERS
ARE FOLLOWING THE MONEY BY
ROLLING OUT UPSCALE SUVs



quisitive 1980s, which brought a host of specialized retailers geared to more individualized tastes, most brands kept their focus squarely on the middle. But with the two

Cover Story

ends of society increasingly alienated from one another in the 1990s, that time-tested strategy no longer assures success. "The more successful companies are trying to treat the market in a more segregated way," says Robert J. Untracht, national director of Ernst & Young's consumer-products industry group. "There's been a major shift."

Indeed, from Detroit to Fifth Avenue, from Silicon Valley to Main Street, Corporate America is rethinking the way it markets its goods and services. Just as Winnie-the-Pooh once meant the little tan bear, banking once meant standing in line at the neighborhood branch, pretty much no matter what your balance was. Phones and phone service were about the same, no matter how large or small the house. And for most folks, the family car meant an affordable new station wagon or sedan. But today, in industry after industry, the market is bifurcating—between private banking services and check-cashing outfits, high-speed data lines linked to the Internet and prepaid phone cards, leather-upholstered sport-utility vehicles and spiffed-up used cars. "We're looking at two marketplaces," says Denise Offutt, head of market research at Epsilon America Inc., one of many computer companies struggling to extend sales of its products to the lower half of the market. "It's a two-hump camel."

CLASS MATTERS. This new dual world affects far more than just the way goods are sold. It has become yet another force tearing at the country's fraying sense of community. Back in the days when virtually everyone gathered around the flickering national hearth to watch *The Ed Sullivan Show* and then trooped out to buy its sponsors' brands, mass marketing was a unifying force. Now, "certain brands become the brands of certain classes, and it helps put people in their uniforms," says Seth M. Siegel, co-chairman at Beanstalk Group, a New York licensing firm. That's true whether it's Prada's hot-selling \$450 black vinyl backpack or

Some companies hope to land customers on both sides of the divide with an upstairs/downstairs philosophy

AT GAP'S BANANA REPUBLIC STORES, JEANS SELL FOR \$58. ITS OLD NAVY STORES SELL A VERSION FOR \$22. BOTH CHAINS ARE THRIVING.

the Kathie Lee line clothing at Wal-Mart.

Of course, neither the mass market nor the middle class has evaporated. Coke, Tide, and an array of powerhouse brands still sell to virtually everybody. And the middle class, though less inclusive, is still a powerful force. But the economic trends of the past 30 years have altered its spending habits as well as its composition.

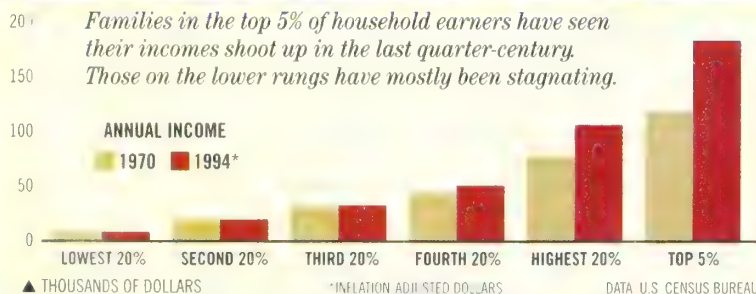
Nowhere have those changes wreaked more havoc than in retailing, where even consumers with a solidly middle-class income have become inveterate bargain hunters (page 90). With proportionately fewer customers able or willing to pay department store prices, venerable chains such as Gimbel's and Woodward & Lothrop have struggled or disappeared. At the same time, discounters including Wal-Mart have risen to dominate the landscape. Just look at shopping patterns over the most recent Christmas season. The bright spots were at the two extremes. On Mar. 5, K-Mart and Tiffany, for example, reported earnings surges in the fourth quarter. Meanwhile, mid-scale chains such as J.C. Penney & Co. Inc. suffered from weak holiday sales. "What do you think the chances are that just by accident, all of the idiots could have been managing the middle-class stores?" Thurow asks of the retailers' rock fortunes. "You could run the perfect store, and if your customers go broke, you go broke with them."

Some companies have responded by slanting their product line much more heavily toward the household that have benefited from the huge amount of wealth created over the last decades. Consider the auto industry. For decades, the Big Three and their rivals organized their marketing efforts around the midrange family car

DOWNSCALE DENIM JEANS

UPSCALE DENIM JEANS

THE RICH GET RICHER





Formerly declassé check-cashing outfits are suburb- bound; banks are wooing affluent customers

NEW YORK, A CHECK-CASHING BUSINESS (ABOVE) AND A CITIGOLD OFFICE. BANKS MUST COMPETE WITH BROKERS

One of the great symbols of the middle class's postwar ascent. The best-selling cars of the mid-1960s—the Chevrolet Impala and Ford Galaxie—fetched about \$2,600, roughly \$13,000 in 1996 dollars, making them accessible to a broad swath of society. In contrast, the top vehicles of today, such as Ford's F-Series truck and the Taurus, cost some \$20,000, putting them out of the reach of many middle-class consumers. Similarly, one of the fastest-growing segments of the auto industry has been the upscale leather-upholstered sport utility vehicle with a luxury name plate.

MILLIONAIRE'S WORLD. Why? The income trends of the past three decades have left fewer people overall with the capital to buy a new car—but more people looking to spend big on a high-end vehicle. The results have been dramatic. In the 1990s alone, the median price of a new car has risen by 22% in constant dollars, according to J. D. Power & Associates Inc.



UPSCALE PRIVATE BANKING

The highest-earning fifth of the population now accounts for 54% of new-car sales volume, up from 40% in 1980. "The shift is of epic proportions," says Paul D. Ballew, J. D. Power's chief economist.

Auto companies are hardly alone in following the money. Gucci has pulled its line of luxury goods from midscale Macy's to concentrate on upper-end stores, while Saks Fifth Avenue has decided to direct much of its marketing effort toward its 100,000 best customers. Electronics companies, meanwhile, are pushing home entertainment

systems complete with satellite dishes and theater-like sound systems that fetch up to \$25,000. The pool of consumers able to pay those hefty prices is steadily growing. By 2005, millionaires will control 60% of the country's dollars, according to the Affluent Market Institute in Atlanta.

The rest will be controlled by middle-class and poorer people stretched thinner than ever. More families can no longer afford things that were once seen as the birthright of the middle class—the occasional new car, the new clothes, the annual vacation. Many have cut back in areas their counterparts wouldn't have considered skimping on in decades past.

Ironically, however, the shift has created a lucrative opportunity for marketers who can provide low-end goods and services that are palatable to a straitened consumer with middle-class aspirations. Marketers have come to realize that as a group, low-wage earners control a powerful amount of disposable income. As a result, that swelling demographic has

Cover Story



**DOWNSCALE
USED CLOTHING**

Sales of used clothing and other goods doubled since '87, but high-end stores also did well

THE CHILDREN'S ORCHARD (ABOVE) SELLS RECYCLED CLOTHES; AN AD DEPICTS DESIGNER WEAR FOR KIDS

gone from an underserved minority to a group with clout and choice.

Some companies are cashing in by providing affordable simulations of the good life. Other marketers are remaking the image of once-shunned industries. General Motors Corp.'s Saturn unit, a leader in auto marketing since it introduced no-haggle buying in 1990, has blitzed the marketplace over the past year with pitches for "pre-owned" cars. Partly, that's because the boom in leasing has left GM with a glut of used cars. At the same time, opening a used-car lot is also a way to reach customers who can't afford new sticker prices. But selling a used car to a middle-class customer who aspires to buy new is not as simple as vacuuming the floor mats and knocking out the dings, so Saturn tries to reassure customers about their status. "When it came to buying a used car, they didn't make us feel



**UPSCALE
NEW CLOTHING**

like second-class citizens," reads one ad that shows a happy customer on his tree-lined street. Other formerly declassé businesses are dressing themselves up to capitalize on the middle-class squeeze, too. Check-cashing outfits, once relegated to inner cities, are moving into middle-class suburbs. There are 5,500 outlets across the country today, more than double the number in 1988. Neighborhood Check Cashing Corp., in a working-class section of Rosedale, N. Y., has decided not to sell lottery tickets so that it will feel more like a bank. "It's cheaper than writing a check," says Janice Ligon, a toll plaza manager and customer. Ligon has a checking account but can write only three checks per month before getting charged 50¢ per check. The check-cashing business charges just 29¢ for a money order and, unlike her bank, it never closes. ACE Cash Express Inc., the country's largest chain, builds lobbies at the front of its stores to mimic banks—and refuses to buy gold, lest it be seen as a pawnshop. Pawnshops, meanwhile, have cleaned up their storefronts and become one-stop financial-service centers for people who live paycheck to paycheck. The check cashers and pawnbrokers still charge exorbitant fees. But as banks hike their charges to customers with smaller balances, those fees no longer look so unreasonable.



Phone arcades serve those without phones, while costly new services proliferate

NYNEX PAY-PHONE AD AND A PREMIUM PHONE-SERVICE SPOT. COMPANIES TAILOR SERVICES TO ALL ECONOMIC GROUPS

The same thing is happening in retail. Second-hand clothing, once the sole province of thrift shops and winter coat drives, has gone upmarket. Sales of clothing and other used goods have doubled since 1987; since 1994, they have grown at almost triple the pace of retail as a whole. "Our pricing is really excellent for struggling young parents, people who grew up understanding what good brands are but who can't afford them now," says Walter F. Hamilton Jr., president of Children's Orchard, a fast-growing children's resale chain. To make those young parents feel O.K. about buying used overalls, Children's Orchard repackages many of its items in shrink-wrap—just like they were new.

But even as some companies aim for either the top or the bottom of the market, there are plenty such as Disney, with its upstairs and downstairs Poohs, hoping to land customers on both sides of the divide. Gap Inc. is remodeling its

Banana Republic stores to make them more upscale and has increased the size of the chain by almost 50%—or 68 units—in the past five years. At the same time, it has headed off some of the competition from the likes of Wal-Mart by creating a hip lower-end chain called Old Navy. Since 1993, the San Francisco company has opened 193 Old Navy outlets, compared with just 21 new Gap stores.

The National Basketball Assn., meanwhile, has raised its prices faster than any other professional sports league. Front-row seats in New York's Madison Square Garden—the ones where Jerry Seinfeld and Spike Lee hang out—now go for \$1,000 apiece. But, worried they might lose the fans who can't afford to plunk down the typical \$200 for a family's night out at an arena, the NBA's marketers have also launched an array of much more affordable merchandise and entertainment properties. The biggest: a traveling basketball exhibition that has made stops in 120 cities over the past year. It's an 18-wheel truck known as JamVan that folds out into an amusement park, complete with baskets low enough for kids to dunk on and the size-22 sneakers of star Shaquille O'Neal. "It's all about touching basketball," says Rick Welts, president of NBA Properties Inc. "It creates a bigger-than-life feel about the game, no matter what your income is."

"ROSEANNE, NOT SEINFELD." Nobody puts as much effort into dual marketing as the telecommunications industry. Technology allows telephone companies to tailor services to discrete socioeconomic groups. AT&T offers add-on services such as 1-500 numbers that allow users to be contacted at any phone. Next year, Motorola Inc. hopes to offer a worldwide satellite phone service to globe-trotting executives—at an incredible \$3,000 a phone and \$3 per minute. At the same time, telecom providers have churned out prepaid phone

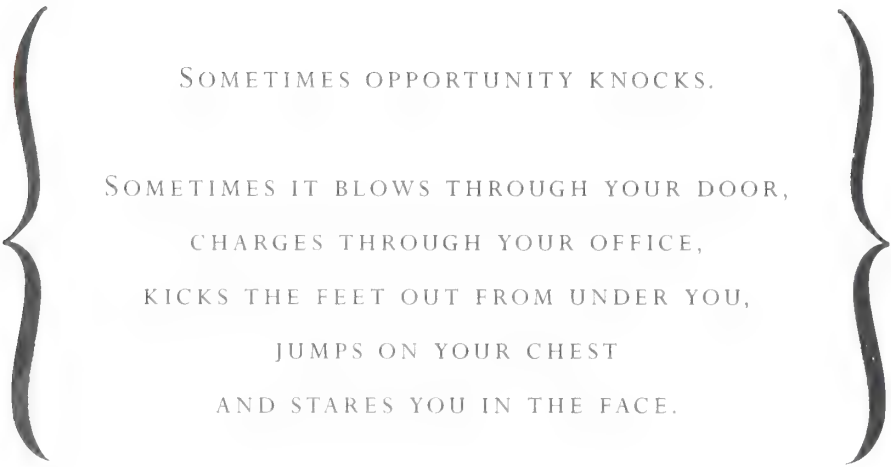


UPSCALE CELL PHONES

cards and calling arcades to serve the growing number of customers who can't afford their own telephone or a credit card. Indeed, calling arcades, with their banks of pay telephones, have become a common feature of the urban, and even suburban, landscape.

The differences in phone service show how invisible the two ends of the market are to one another. Most of AT&T's 1-500 customers will never see the inside of a calling arcade, just as many folks who use prepaid phone cards have probably never heard of the high-end services. That's because the media that once carried mass advertising have splintered along the same divide. When executives at V.F. Corp. in Wyomissing, Pa., decided to target Wrangler jeans more narrowly to the \$50,000-a-year-and-under market, they reexamined exactly where their TV commercials aired. "We look at *Roseanne*, not *Seinfeld*," says Angelo LaGrega, V.F.'s mass market president. "We culled down our audience." The advertising campaign has succeeded: While V.F. as a whole has floundered, Wrangler has been growing at 10% a year for the past decade.

Companies that have failed to recognize the split in the market have paid the price. The banking industry, for example, sat back and watched as its middle market was pulled in two. Over the past 20 years, the number of U.S. families without a checking account has jumped from 9% to 13%, according to the Federal Reserve. Over the same period, wealthy Americans turned increasingly to brokerage houses such as Merrill Lynch & Co. and Fidelity Invest-



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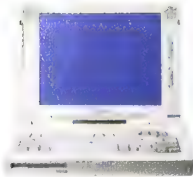
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ments, where they can receive investment options along with a checkbook. "While the affluent market has been going through the roof, banks have been giving the market away," remarks David Ross Palmer, a banking consultant specializing in that upper-end niche. Since 1978, the percentage of households' financial assets tucked away in commercial banks has slipped to 29% from 37%, according to Furash & Co., a financial-services consultancy in Washington, D.C.

Now the banks are fighting back. Citicorp, NationsBank, Wells Fargo, and a host of others are setting up separate of-

fices to woo investors who have, say, \$100,000 in investable assets, but not enough to qualify for traditional private banking services. Today, Citicorp has 240 CitiGold offices around the country—and it sets up one in every new branch it builds.

How many other brands will be singing a similar sad song a decade from now? That will depend to a great extent on how well they navigate the new marketplace. It's a through-the-looking-glass world, with the spoils likely to go to those companies that are best able to scale back the mass in marketing. Those that persist in trying to reach the most people possible may find instead they reach no one at all.

By David Leonhardt in New York

Cover Story

GRABBING BARGAINS—AND A \$2 CUP OF COFFEE

Gil Pastore pulled his Jeep Cherokee into the Wal-Mart parking lot in Shelton, Conn., and hopped out to do a little shopping. The 35-year-old owner of a computer-service business bought a small pack of batteries, a big bag of dog food, and 20 minutes later was on his way.

Pastore, who figures Wal-Mart saved him \$5 off supermarket prices, followed a distinctly 1990s compulsion of the middle class: He shopped discount. Increasingly, the middle class, a group that once expected to pay roughly the same price for the same goods no matter where they bought them, is splitting its budget between bargain stores that provide savings and purveyors of affordable luxuries that provide a taste of the good life.

INDULGENCES. The middle class may be proportionately smaller than it was two decades ago, but it has in no way disappeared. Some 40% of the U.S. population—or more than 100 million people—live in households earning \$35,000 to \$75,000 a year. What has fallen away, though, are the rules that govern their spending.

Stretched budgets have provided middle-class shoppers with plenty of reasons to look for savings, while the sale-filled recession of the early 1990s has trained them to expect markdowns, retail analysts say. Meanwhile, increasingly hectic work schedules have inclined people toward small indulgences such as a \$2 cup of coffee, a \$10 six-pack of beer, or gourmet take-out dinners. The result: Even those with middle-class

incomes are contributing to a bifurcation of the mass market. "Status has been redefined, so that it's not just the brand you have but also the deal you got," says Carl Steidtmann, director of research at Management Horizons, the retail consulting division of Price Waterhouse LLP. "Peo-

items at Wal-Mart. "If a family can save \$200 to \$300 over a year, that's a lot of money."

Nor does the middle-class obsession with bargain hunting show any signs of petering out. Forty-seven percent of U.S. consumers plan to spend more money at discounters

this year over last year, according to Ernst & Young's Forecast '97 survey. Only 7% say they will spend less.

Of course, consumers in all brackets continue to crave a little luxury in their lives. Savvy marketers are figuring out ways to provide it—or at least a close facsimile—for a reasonable price. Ernst & Young points to these affordable luxuries as one of the six big consumer trends in 1997. "If before we were buying ourselves a new car every three years or going on a cruise every two years," says Mark Barden, founding partner at the San Francisco ad agency Black

Rocket, "now we're buying ourselves a really, really good cup of coffee."

Indeed, Starbucks Corp. and other upscale coffee houses have proliferated in the last five years. Meanwhile, brands from Jeep to Gucci have begun to license their logos for use on items from boom boxes to perfume, appealing to people who like a luxury image but not a luxury price. As marketers from Wal-Mart to Starbucks have discovered, convincing consumers that you offer either a great bargain or a great treat can prove irresistible to the '90s shopper.

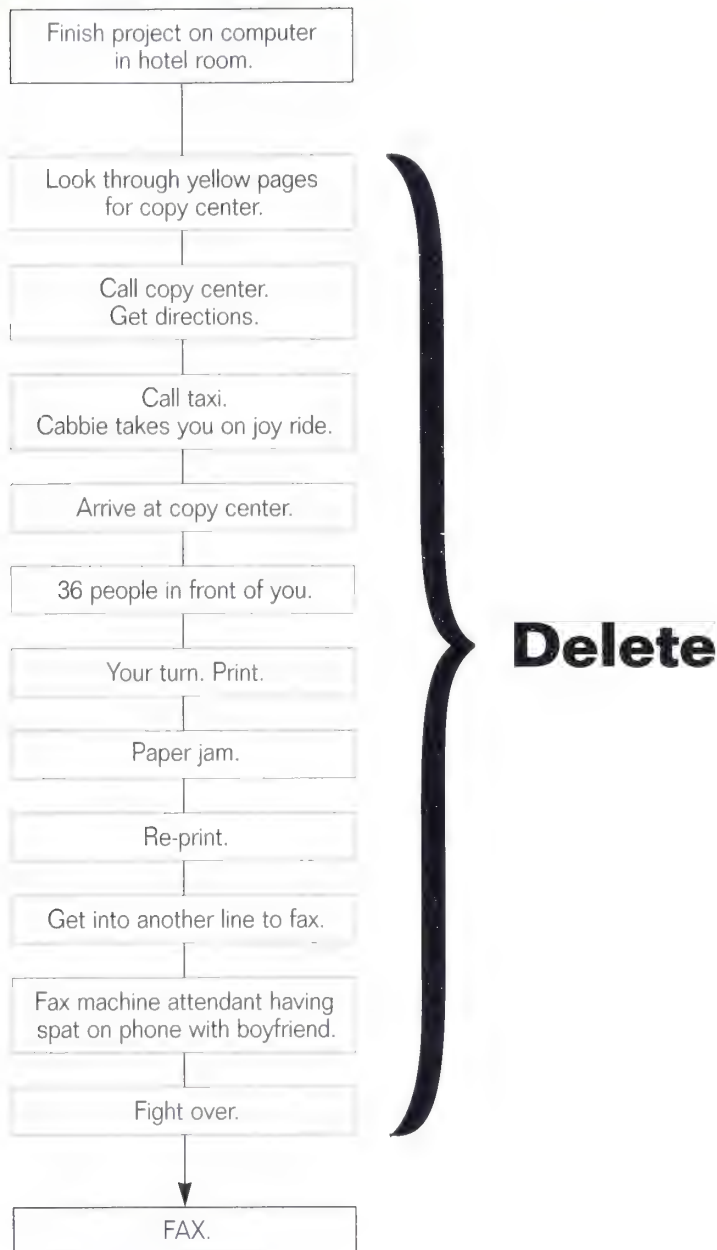
By David Leonhardt in Shelton, Conn.



SMART SHOPPER PASTORE: *The middle class loves a deal*

ple are proud of buying discount."

Just look at Wal-Mart Stores Inc., where annual sales have more than doubled in the past five years, to \$93.6 billion. The discounter's legendary efficiency allows it to offer name-brand goods at substantially lower prices—an enticing proposition no matter what your income bracket. Indeed, a tour of a typical Wal-Mart parking lot shows shiny new luxury sedans and 4x4s alongside aging subcompacts in need of a paint job. "You hear that the economy's doing well, but I travel all over the state, and the economy's tough," says Pastore, who usually buys only brand-name



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EVERYTHING FOR

BY ROBERT KUTTNER

Deregulation is taking hold across the economy. But in an adaptation from his new book, Everything for Sale, BUSINESS WEEK columnist Robert Kuttner argues that market forces by themselves are insufficient. Kuttner explains how a mixed economy, combining competition with some form of government oversight, works better than a pure market economy:

Item: The 1996 Telecommunications Act has just celebrated its first birthday. Consumers and businesses are gradually getting a choice of local as well as long-distance phone companies. But to achieve competition, the Federal Communications Commission (FCC) is more involved in the process than ever.

Item: Market forces have been reducing health-care inflation. But 12 states have passed laws to safeguard the rights of patients and to limit the secret financial incentives that insurance plans give doctors. The federal government has just issued regulations limiting what health-maintenance organizations can do to pare costs and barring insurers from denying coverage to people with preexisting medical conditions.

Item: Electric-utility customers are slowly getting a choice of power company. Six states, led by California, have mandated full competition for electric-power generation. Congress has required that local utilities let independent power producers onto the local grid. But the agencies that regulated the industry aren't going away. Instead, they are finding a new role setting ground rules and directing traffic.

So there is a paradox: If anything, greater reliance on market forces in imperfectly competitive industries turns out to require more of a regulatory presence, not less. Indeed, the Republican radicals of the 1994 Gingrich class, after initially thinking that the regulatory agencies might just be abolished, pulled back.

WAY STATION? This turn of events was less the result of a tactical move to the political center than an acknowledgment of how these industries actually work. As Republican conservatives got down to the business of studying how to bring about greater consumer choice, total deregulation proved impractical. Instead of abolishing the FCC, the Republican leadership in Congress brought forth a bill that mandated greater competition while putting the FCC in charge of assuring fair play. It will probably pursue roughly the same approach when Congress takes up legislation for further deregulating electric power and financial services.

Some free-market theorists, such as Peter Huber of the Manhattan Institute for Policy Research, argue that the lingering regulatory involvement is just a way station on the road to complete deregulation. Eventually, they say, there will be a giant free-for-all to pro-



vide information services, entertainment, electric power, and financial services to business and consumers. Regulators need only get out of the way and let competition do the job.

But this view is turning out to be a mirage. New technology certainly allows for greater competition and consumer choice in industries once regulated as natural monopolies. But much to the disappointment of the purists, this is not an era of simple deregulation, but of regulated competition. Here are the reasons:

■ **Public Purposes.** Industries such as telecommunication, electric power, and health care retain public purposes that free-market forces cannot achieve. For example, as a society we remain committed to universal access for certain goods. Left to its own devices, the free market might decide that delivering electricity and phone service to rural areas and poor city neighborhoods is not profitable, just as the private market brands cancer patients "uninsurable."

Once public policy requires that power companies serve all customers, there needs to be some kind of cross-subsidy scheme to pool the cost. Likewise, when private competition

**EVERYTHING
FOR SALE**

VIRTUES AND LIMITS OF MARKETS

Adapted from Everything for Sale: The Virtues and Limits of Markets by Robert Kuttner, ©1996. Published by Alfred A. Knopf Inc. and the Twentieth Century Fund.

SALE In principle, yes. But the unseen hand of market forces needs some reining in



the health-insurance industry tries to maximize profits by denying coverage to people likely to get sick, it defeats the whole point of insurance and requires regulatory intervention.

Unsovereign Consumers. In ordinary markets, the buyer holds the seller accountable: If you don't like the product, you take your business somewhere else. But this discipline does not work if you have a preexisting medical condition, or if there's only one local cable-TV company, or if there is only one dominant airline serving your local hub.

Economies of Scale. It may be efficient to let competition sort out who makes the best cheeseburger. But it would not be efficient to string multiple power lines to the home. The local electricity grid remains a kind of public utility, even if there is competition to generate power. Despite new technologies, scale economies are still a reality in many industries. In such industries, the alternative to public regulation is a private monopoly or cartel—which isn't efficient either.

Monopoly. The entire history of greater competition and choice in telephone service has been a creature of regulatory policy. In order for such companies as MCI Communication

Corp. and Sprint Corp. to gain a foothold in long-distance service, it was necessary to restrain AT&T's monopoly power, first through a consent decree and then through ongoing oversight by the FCC. Now, the same process will occur in local service, where there is an incumbent Baby Bell that enjoys the market power to crush upstarts if left free to do so. The FCC has identified no fewer than 266 requirements for achieving fair access.

■ **Systemic Risk.** This is the year when Congress may finally repeal the Depression-era Glass-Steagall Act and allow the creation of an integrated financial-services industry. But the risks of a financial meltdown are so great that virtually all parties to the debate concede that even if we permit new financial conglomerates, banks still need to be regulated as banks, brokers as brokers, underwriters as underwriters, and insurers as insurers. Cathy E. Minehan, president of the Federal Reserve Bank of Boston, observed in a recent speech that "regulatory oversight becomes more difficult rather than simpler as deregulation occurs." With greater competition, she observed, the key task of regulators is to prevent systemic risk.

■ **Externalities.** The normal course of production can create "externalities" that negatively affect society. For example, a generating plant may emit pollutants that cause health problems for surrounding communities. In general, markets have a tough time handling externalities by themselves. In the 1970s, economists such as Charles L. Schultze, chairman of President Carter's Council of Economic Advisers, began urging that "command-and-control" regulation be replaced with more "marketlike" incentive regulation. The idea, in Schultze's arresting phrase, was to harness "the public use of private purposes," by creating economic incentives for businesses to do the right thing.

In the control of pollution, one epic example is the case of tradable pollution permits—an idea long advocated by economists and finally enacted as part of the 1990 Clean Air Act to control acid rain. Congress set a ceiling on the total national emission of sulfur dioxide and then created a market in entitlements to pollute. Polluting industries could either invest in new technologies or buy the certificates. The market set the price. The system has proved to be an ingenious use of incentives, but this was not a market that existed in nature. It required the regulatory determination of a safe level of sulfur-dioxide emissions, as well as a regulatory creation of a new kind of property right.

Are there any cases where full deregulation works? Deregulation has proved successful in some industries, such as natural gas and trucking. But far more prominent are industries such as airlines and the savings and loan business, where deregulation had far less desirable consequences.

Take the airline industry. Airlines today are far more concentrated than before Carter signed the bill abolishing the Civil Aeronautics Board. The fathers of deregulation, such as Alfred E. Kahn, assumed a new era of greater competition, but most hubs became dominated by one or two carriers. Selective price cutting by dominant airlines put most upstart competitors out of business, either via bankruptcy or merger.

True, average ticket prices have fallen, but adjusting for



Briggs Robertson, Director of Information Technology, and Roberto Rivera, Vice President of Operations - Florida City, talk

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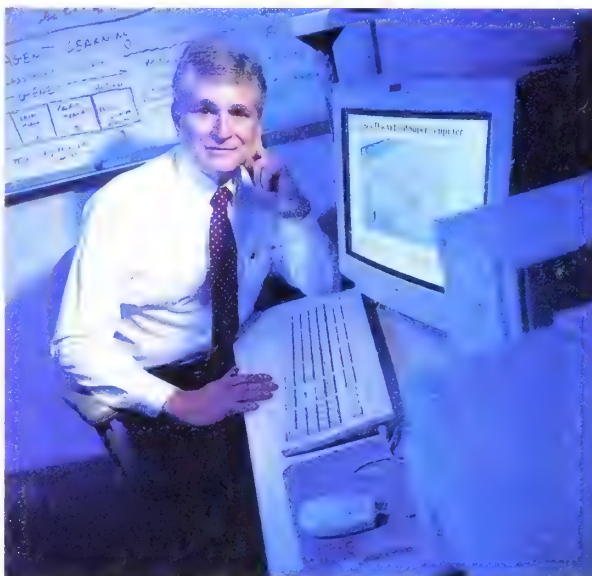
fuel costs, they actually fell at a faster rate before deregulation. And instead of prices reflecting the true cost, the airlines have designed a crazy quilt of fares to extract maximum profit. Unlike the telecoms, airlines had no regulatory agency to monitor the experiment and mandate course corrections.

Even the vaunted auction of broadcast spectrum, hailed as the epitome of market principles, required dozens of prior regulatory determinations. Before auctions could proceed, the FCC had to determine which parts of the spectrum should be redirected to what new uses, whether the rights were being sold for a finite period or in perpetuity, how the auction would be conducted, how many competitors were sustainable in each market area, whether licenses could be freely traded in a secondary market, and a host of other ground rules. The answers were not self-evident from pure market principles. Although this used a marketlike mechanism, it was emphatically a contrived market.

HALF A LOAF. Not surprisingly, advocates of pure deregulation are dismayed by the turn toward regulated competition. A recent issue of the journal *Regulation*, published by the libertarian Cato Institute, carries an article bitterly attacking the 1996 Telecommunications Act: "Rather than diminishing the government's role in directing the telecommunications industry, the bill has increased it." Such critics are indignant that the FCC will continue to enforce rules of fair competition. But the alternative would not be a free market but a series of private cartels. Cato has also attacked regulated competition of electricity, as half a loaf.

Alas, for the purists, such sectors as electric power, health care, financial services, and pollution control display variations on the same theme of regulated competition. What these industries have in common is a departure from the perfect market of the economics textbook. Either they have elements of natural monopoly, lingering pockets of market power, positive or negative spillovers not reflected in market pricing, or public policy goals such as universal service or public health, which entail cross-subsidy. All can benefit from greater injection of market principles, but these contrived markets, paradoxically, require smart, discerning regulation.

So regulation is dead: Long live regulation. But the champions of the market should take heart. The new brand of regulation displays a new appreciation for the power of prices and of incentives. It indeed harnesses market principles for public as well as private purposes—but also recognizes that such markets do not exist in nature. □



PRYOR: *His Aspen is the most ambitious system*

Has macroeconomics gone Hollywood? Some economists think so. Macroeconomics, they lament, seems to offer increasingly simple-minded plots jazzed up with ever more mind-boggling special effects. That's why Axel Leijonhufvud, an emeritus economics professor at the University of California at Los Angeles, founded UCLA's Center for Computable Economics in 1991. It's one of several new efforts seeking to instill a sense of reality in the dismal science—by coming at economics from a different direction, with new tools.

New computer models are essential to understanding today's dynamic economy. The assumptions behind current models, which make forecasts by analyzing huge amounts of macroeconomic data, are "sham and delusion," says Barbara R. Bergman, an economics professor at American University in Washington, D.C.

The new models combine lessons from biology with a bottom-up analysis. The aim is to create a society-in-miniature inside a computer. Instead of grinding

through historical economic data, the new models create virtual worlds with hundreds of miniprograms. Each miniprogram represents a real-world economic entity—such as a factory, store, bank, or household. These get tossed together in a silicon realm where they evolve and they interact with other entities, creating a dynamic economic model.

EVOLUTION. Each of these miniprograms can vary in certain details, so many outcomes are possible. One household might be made to shop for the lowest price, for example. Another might prefer quality over cost.

Once these agents are set loose, what happens next is anyone's guess. The humans running the show set up the initial environment and constraints, and then "evolution" takes over. It's a Darwinian world, where only some solutions endure.

The most ambitious of the new models so far is a system called Aspen. It is the brainchild of Richard J. Pryor, a computational sciences manager at Sandia National Laboratories. Aspen is still being developed, but some economists consider Aspen and its lesser brethren a major step forward. "This is probably the best thing that's come along in a long time," says Lawrence R. Klein, a Nobel prize-winning economist and a pioneering economics modeler at the University of Pennsylvania. Stephen Gibson, executive director of the Bioeconomics Institute in San Rafael, Calif., says "a whole new laboratory workbench has been created, and a new research community is starting to coalesce around it."

Because the new models evolve, the miniprograms that represent the eco-

mic actors, or agents, are called genetic algorithms. Each program mutates swapping bits of computer code ("genes") with others—creating new agents with different behaviors. Unveiled a year ago and still in the prototype stage, Aspen has already lived up to some surprises. While Aspen is simulating the effects of different monetary and fiscal policies (one of which triggered an economic slump), the synthetic companies did something totally original. "The firms learned to operate," says Sandia economist Nipa Pryor. "We didn't put that into the software," she notes. "But when things went sour, the firms got together and helped each other out"—just as real companies might help their suppliers in rough times.

HIGH PRAISE "This is probably the best thing that's come along in a long time," says Lawrence Klein, Nobel prize-winning economist

Aspen's make-believe world can have 100,000 households plus 1,500 factories, stores, banks, and government agencies—the economic ingredients of a city or country. The size is vital, says Pryor, no dreams of models with 100,000 agents and more. "With thousands of players, you see behavior you wouldn't see in macro models," he explains.

Aspen can be used to analyze things for which there is little data—such as underground economies in Eastern Europe and trade breakthroughs such as the North American Free Trade Agree-

ment. But Pryor expects the main applications to be in analyzing the causes of business cycles, both nationally and in specific industries. In addition, government officials could also use Aspen on tasks performed by conventional models, such as previewing the economic fallout from tax and regulatory changes.

Among the larger projects to date was a look at alternative ways for Washington to stimulate the economy. The simulation showed exactly what economists would expect: increased federal investments had little effect if the Federal Reserve allowed bond interest rates

to float, because higher rates offset the stimulus. But when the Fed bought bonds to hold their rates as flat as possible, gross national product zoomed.

Already, similar economics models are creeping into the real world. Bernardo A. Huberman, a physicist at Xerox Corp.'s Palo Alto Research Center (PARC), has created a cold-air market in one of the center's buildings. Multiple thermostats sense the temperature and compete to "buy" units of flowing air. The system yields better temperature stability than one using conventional controls, Huberman has found. He and researcher Tadd Hogg are refining a similar bartering system that bids for time slices on computers linked to a network. Another PARC researcher, Natalie S. Glance, joined them to run a

simulation that probed the pros and cons of investing in employee training.

Daniel D. Bachman, an economist with WEFA Group in Eddystone, Pa., agrees the new approach might be valuable but says Aspen is probably too expensive for widespread business use. Sandia has a couple of proposals pending in Washington. One would assess the direct and indirect paybacks from the Energy Dept.'s investments in supercomputers, which might help Energy defend its budget from congressional pruning. Meanwhile, Pryor is hatching a proposal for creating a new breed of robots that would learn to cooperate and find ways to improve productivity, the way human workers do.

As is often the case with upstart contenders, the developers of the bottom-up models "tend to think they're going to overturn the standard way of doing economics," says PARC's Huberman. "I don't agree." He doubts computer models can ever replace analytical thinking. What simulations will do, Huberman predicts, is help economists find new insights that put the real world in a new light.

*By Otis Port in
New York*

A GLOSSARY

AGENT A biologically inspired miniprogram designed to behave like an economic entity, such as a household, bank, retailer, or government agency.

BOTTOM-UP MODEL

A computer simulation that humans build around agents and genes, then allow Darwinian principles to take over.

GENE A small piece of a genetic algorithm that gives it certain characteristics, such as a household's preference for quality vs. price.

GENETIC ALGORITHM

A computer program that can evolve and mutate by exchanging genes with another genetic algorithm.

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"S CHILLY. LET'S TURN UP THE PAINT

RED OF GURGLING RADIATORS and icy window panes? Try electric paint. Developed by two French inventors, this gray-colored concoction rolls on just like regular wall paint. But hook up a 12-volt battery to the paint's surface via two electrodes, and it heats up to 100°F in two minutes, thanks to conductive tin dioxide and antimony oxides swirling through the paint. The surface can be covered with ordinary acrylic paint, wallpaper, or tiles.

Inventors Gilles Thuny, president of French paint-maker Peintures Reudon, and Jean-Claude Migaglia dreamed up the paint as a way to make drafty French country homes a little cozier in winter. They applied for international patents in 1993 and are now looking for industrial partners to help develop and market the product.

The first customer is the French army, which is testing the product for use in a variety of training drills involving infrared detection devices and heat-seeking weapons. But Thuny says there are other, less exotic applications: coatings to prevent water pipes from freezing in winter, heating systems in cars and trucks, and—if the product clears European regulatory hurdles—wall paint to replace radiators in homes. The inventors say that users will eventually be able to control the heat by means of a thermostat. *Mia Trinephi*

TURNING BOSSIE INTO A LIVING DRUG FACTORY

THANKS TO GENETIC ENGINEERING, scientists can direct cells to produce all kinds of proteins that have therapeutic or nutritional value. But cranking them out in large volumes is a challenge. Robert D. Bremel, dairy science professor at the University of Wisconsin in Madison, says a good solution can be found in the barnyard. "Cows are the answer," he declares.

Bremel injects special genes into the udders of cows, altering the cells so

they produce milk mixed with drugs or other useful products. One example is a high-intensity sweetener derived from a Central African berry, which could be used in diet foods. Another is an antibody that recognizes tumors, meaning it could assist in finding and attacking human cancer. To market such products, Bremel and several partners six months ago started a company called Gala Design in Sauk City, Wis.

Cows promise several ad-



vantages over sheep and goats, whose milk has been manipulated by other biotech startups to yield drugs. Because of the size of the dairy industry, there could be huge economies of scale. And many dairy plants already use milk-processing techniques easily adaptable to genetic manipulation. There's no need to clone Bossie to make all this possible. If she gets a dose of the right genes, she's got everything she needs to do the job. *Greg Burns*

ARE YOU IN LOVE, OR IS IT YOUR GENES?

COULD THE GLINT OF DESIRE IN YOUR LOVER'S EYE JUST be a reflection of some DNA? Metaphorically, that's what researchers at the Salk Institute in La Jolla, Calif., are proposing. They've found a gene that regulates sexual behavior in fruit flies. When it's inoperative in female flies, they reject sexual overtures from males, fleeing from and sometimes even kicking their suitors. In males, damage to this love gene triggers indiscriminate mating attempts with males as well as females. Researchers have wryly dubbed the gene "dissatisfaction."

The discovery, says Salk researcher Michael McKeown, "lays the groundwork for understanding the relationship between genes and sexual behavior." In this case, the gene affects both pathways in the brain and the ability of females to release eggs. What are the implications for humans? Social and cultural factors are obviously key, but McKeown thinks that genes influence human sexuality as well. The human version of "dissatisfaction" is probably one of them. *David Graham*



INNOVATIONS

■ Fuel cells have long promised nonpolluting energy. But commercial development has been slow. Most designs rely for fuel on hydrogen gas, which is difficult to store. Scientists at the University of Southern California and NASA's Jet Propulsion Laboratory say they have a better proposal: a cell that runs on inexpensive methanol and operates well below the boiling point of water. The scientists hope to produce a 50-watt fuel cell the size of a paperback.

■ Researchers at Hôpital de Bicêtre in France think they can put tobacco leaves to good use—producing hemoglobin for blood substitutes. Most researchers interested in developing such substitutes, aimed primarily at hospital emergency wards, extract and purify hemoglobin from cadaver or animal blood. But by inserting into easily grown tobacco leaves the human genes that code for the oxygen-bearing molecule, the scientists hope to produce hemoglobin that is free of contamination. That would eliminate the need for expensive purification.



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DOES THIS GALVIN HAVE THE RIGHT STUFF?

Motorola's third-generation CEO must stop the slide at the \$28 billion company

Even in the early days of his 50-year career at Motorola Inc., Robert W. Galvin rarely missed dinner with his wife and four children. If he couldn't get his work done during the day, he would still arrive at the family's white brick house in an upper-middle-class, mostly Catholic neighborhood in the Chicago suburb of Skokie in time for dinner. Afterward, he'd sit in his tan reading chair in the den and finish up.

The kids would wander in to see him. Christopher, the third child and first of the two boys, would perch on Bob Galvin's shoulders and pretend to give him a haircut. Michael, Gail, or Dawn might give their dad a make-believe shoeshine. When his work was done, Bob, who piloted Motorola from 1959 to 1990, would tell stories about the company.

He might, for example, talk about supplying communications equipment for most U.S. space missions, including 1958's Explorer 1. His father's message, Chris would later recall, was that business is fun and can change people's lives. Says Michael, 44: "It was no surprise that we would be begging him to take us to the office."

Now, Chris Galvin has taken over the office where he and his siblings once romped. On Jan. 1, he became the third Galvin to lead the company his grandfather, Paul, founded in 1928. After 24 years in sales, marketing, and management at Motorola, Chris, who turns 47 on Mar. 21, has won the board's respect. "I'm certainly a believer that he will provide the leadership we need, not just for two or three years, but for many years," John A. White, dean of engineering at Georgia Institute of Technology and a Motorola director, told BUSINESS WEEK when the promotion was announced.

Leadership is the issue because Motorola, long a juggernaut beloved by Wall Street, has "lost momentum," as James Burkart, vice-president at Northern Trust Co., one of Motorola's largest shareholders, puts it. Once a relentless producer of double-digit sales and earnings gains, the company is at a crucial juncture. Net income fell 35% in 1996, to \$1.15 billion—its worst slide in more than a decade (charts, page 104). New competition and missteps in the cellular-phone market

have cut its share to 35% worldwide, from 50% in 1994. And an industry downturn and troubles at customer Apple Computer Inc. sent sales of semiconductors, its other key business, skidding 8% in 1996. The company's stock is down some 30% from its September, 1995, peak.

SUSPICION. The question on the minds of investors, employees, and customers: Is the founder's grandson up to reviving Motorola? Many worry that Galvin owes his job to heredity and question if he can lead the \$28 billion corporation out of its quagmire. "There's always the suspicion that they're not getting the best executive they could get because of the family history," says Bruce E. Behrens, manager of Flag Investors Telephone Income Fund, which holds Motorola stock. "He probably has a greater burden of proof than somebody else would." Says one midlevel manager: "I wonder whether he has plan to fix this place, and I wonder whether he can make it happen."

What makes his burden doubly heavy is that Galvin promises no radical change. While he declined to be interviewed for the record for this article, internal memos and interviews with top executives indicate that he plans to manage the company much as his father and grandfather did. That means Motorola will keep making costly, long-term bets in emerging technologies for which it hopes to supply high-margin equipment. Research-and-development spending will remain about 8% of sales—\$2.4 billion last year. Short-term slumps will be tolerated.

GRANDFATHER AND FOUNDER PAUL WITH CHRIS'S FATHER, ROBERT, IN 1956





Christopher B. Galvin

EDUCATION

BA, Northwestern University; MBA, Northwestern's J.L. Kellogg Graduate School of Management

TITLE

Chief executive officer, Motorola

BORN

Mar. 21, 1950

CAREER

1973 Joined Motorola as a salesman for two-way radios

1984 Named general manager of U.S. operations for subsidiary Tegal

1986 Named general manager of paging division

1988 Named chief corporate staff officer; joins board

1993 Named president and chief operating officer

1997 Named chief executive officer

FAMILY

Married 18 years, two children

PASTIMES

Golf, skiing, fly-fishing

ated for long-term gain. Large acquisitions are unlikely.

In meetings and monthly electronic messages to execs, Galvin has warned that execution must improve. But will a strategy focused simply on doing more of the same, better, be enough? As never before, Motorola has nimble, well-financed rivals that can quickly challenge it in new markets. In cellular phones, L. M. Ericsson and Nokia are narrowing its lead in technology and market share. And Motorola's Iridium satellite phone service was a cutting-edge concept 10 years ago. Now, the competing Globalstar system will make it to market with a cheaper service in 1998, the same year as Iridium. "We have great competitors," Galvin often tells his executives.

He has wasted no time in seizing command, quickly lining up a management team dominated by veterans of the successful paging business. His second-in-

command, Chief Operating Officer Robert Growney, headed paging. Later, he led the sector that includes paging to 33% growth from 1994 to 1996. He's a respected, detail-oriented manager with ample factory-floor experience. Hector Ruiz, who also ran paging, has been given the task of reviving semiconductors. Galvin has also installed new heads at the core messaging and paging units.

EARLY PROMISE. Regarded as a long-term strategic thinker and an effective motivator, Galvin showed signs of leadership as far back as Cranwell, the Lenox (Mass.) prep school where he was captain of his ski and lacrosse teams and senior class president. Peter Coakley, his Cranwell roommate, remembers him as "a natural athlete and a far more serious student than I." At Motorola, Galvin is credited with helping to quadruple automotive supply sales in seven years, push open the Japanese market for cellular

phones, and establish standards that are fueling growth in the paging industry. Even though he has less line-management experience than other senior managers, George M.C. Fisher, who resigned as CEO in 1993 to head Eastman Kodak Co., predicts Galvin will "prove a great leader" for the company. "I think he's every bit as good as his father," he adds.

Chris is extraordinarily close to his father, who at 74 is chairman of Motorola's executive committee. Chris bears a striking resemblance to Bob and like his father at the same age, has a shock of near-white hair streaking his otherwise dark mane. The two often lunch together in Motorola's cafeteria. But when Bob offers advice, insiders say, he does so behind closed doors.

In a company dominated by engineers, both are generalists with experience in sales and marketing. Bob, a cerebral, rather formal manager who never fin-

ished college, inspired loyalty with his long service and love of Motorola. Chris is more approachable, and his personable style and remarkable memory for names go a long way toward winning people over. A graduate of Northwestern's J.L. Kellogg Graduate School of Management, he prides himself on strategic analysis and the ability to pick enduring technology trends. Galvin, says semiconductor chief Ruiz, "wants you to accomplish something that will take up a chapter in a book on Motorola. He thinks in terms of 'What is your legacy?'"

UNWAVERING PATH. The only one of Bob's children to make a career at Motorola—his sisters are homemakers and his brother runs a venture-capital firm in Washington—Chris followed an unwavering path. "Some kids want to be professional baseball players," says Michael Galvin. "Chris always knew he wanted to work at Motorola."

He joined in 1973, as a salesman in the two-way-radio business. Even then, he clearly saw his destiny. While still in sales, he approached his then-boss, Frank Wapole, with suggestions about strategic direction. "I told him, 'When you get to be president of [the sector], you'll get to make those decisions,'" says Wapole, now director of global government relations, adding, with no apparent irony: "He appreciated the feedback."

As a manager, Galvin has had some rough moments. Even he has admitted that his 1982 effort to cut manufacturing time and boost quality in the mobile-radio business failed miserably because of weaknesses in designs and processes. His lack of engineering skills earned him an early reputation as a technical lightweight—a rap he later beat with his grasp of technological issues. Still, some employees consider him arrogant. "He thinks pretty highly of himself," snipes a midlevel exec. And some think his seemingly inevitable rise prompted the departure of skilled senior execs, including Fisher, though the Kodak CEO denies it.

Says Fisher, 56: "I never felt any pressure. Bob Galvin was as much a father to me as he was to Chris."

Not surprisingly, Chris has always been seen as different from his Motorola colleagues. Early on, line workers sometimes asked for his autograph. (He would acquiesce—if they gave him theirs as well.) He was often put on high-profile special-project teams. And he skipped quickly up the ladder, becoming general manager of a semiconductor-equipment subsidiary, Tegal, in 1984 and general manager of the paging unit in 1986.

Still, Bob Galvin alone could not make

THE UPSIDE Galvin is seen as a long-term strategic thinker and an effective motivator. As general manager of paging, he led an effort that cut manufacturing time from 28 days to about two hours

his son CEO. The family holds only about 3% of Motorola's stock, and the board has many independent directors. When Bob suggested making Chris CEO in 1993, the board chose Gary L. Tooker instead. Since then, Chris has come to be seen as a capable, even inspiring executive.

Consider how, as assistant chief operating officer, he helped Frederick T. Tucker expand the Automotive, Energy & Components Sector. Auto supply has been a core business since the 1930s, when Paul Galvin began selling the first mass-produced car radios. But when Galvin started working with Tucker in

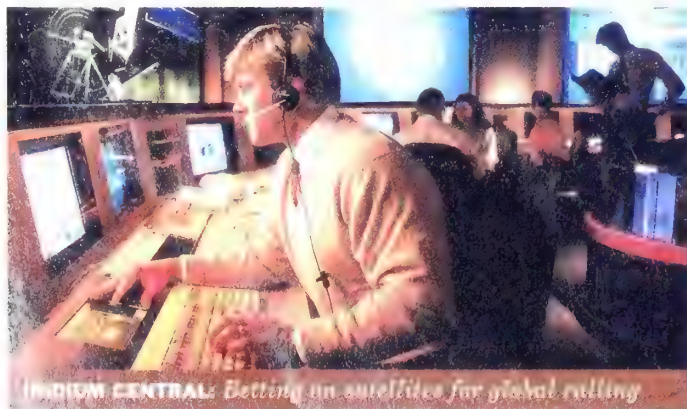
1989, the sector, which Tucker heads, had been stagnating for a decade.

Galvin began, Tucker says, by reassuring him that he considered him a top operator. Still, he pushed Tucker to take chances, using the sector's strength to expand. So Tucker began selling batteries for computers and power tools, not just supplying them for Motorola products. He started making chargers for cellular phones and leveraged Motorola's semiconductor expertise to sell controllers for gas and diesel engines. Since 1989, the sector's sales have quadrupled, about \$2 billion. Says Tucker: "His leadership style has brought out the best in me over the last seven years."

Among the achievements of which he is most proud, Galvin counts having helped to open the Japanese market to foreign cellular companies. U.S. Trade Representative Charlene Barshefsky then deputy USTR, was reluctant to join the battle until Galvin assured her that Motorola would share the heat if Japan resisted. As a result of their effort, Japan in 1994 began letting customers own cellular phones and permitted more foreign competition. The effort wasn't a complete coup: Motorola still doesn't make money selling phones in Japan. But it has cut margins for Japanese rivals, what was once a profit sanctuary.

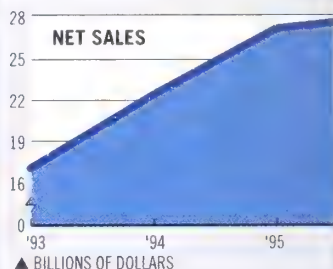
TEAMWORK. Galvin also articulated the vision that guided the growth of the paging business. During mid-1980s brainstorming sessions, he coined the phrase an "answering machine in your pocket" to summarize the paging group's goal. Since then, Motorola has introduced technology that makes possible two-way paging, text messages, and voice messaging. As general manager of paging, Galvin also led an effort that improved quality and cut pager-manufacturing time from 28 days to about two hours.

Now, as CEO, Galvin has begun attacking a culture that has long favored internal competition. Such behavior was championed by Fisher, who fashioned



A HIGH-TECH STAR FALLS TO EARTH

TROUBLES IN KEY UNIT HAVE FLATTENED GROWTH



Motorola into one of the world's hottest technology companies. He went so far as to urge units to try to swipe business from one another, and his successor, Gary Tooker, who became chairman on Jan. 1, followed his lead. But Galvin wants Motorola's divisions to work together. He expects to cut costs through reduced research investments, for example, to serve customers better by packaging such products as cellular phones and equipment together.

LONGER CELLS? In addition, he is demanding greater focus on customers through better sales and marketing, particularly in cellular phones. He also plans to hold managers more accountable. In a Jan. 31 memo on improving performance, Galvin declared: "There will be no more rationalizations by anyone on missing aggressive financial plans." His goal, the memo states: companywide sales and earnings growth of 15% to 20% a year. But even if he succeeds in changing corporate culture, turning around Motorola won't be easy. Most worrisome are the company's mistakes in cellular phones. New products have been late to market, —shocking for Motorola—the engineering has been flawed. One phone, for example, had two antennas that turned out to garble, rather than enhance, reception. Internally, Galvin has been highly critical of such blunders.

Semiconductor operations are another trouble spot. Sector sales slipped 8% last year, to \$7.9 billion, largely because of an industry downturn and a steep drop in prices. Worse, sales of the PowerPC microprocessor, one of Motorola's best-margin chips, were hurt by Apple Computer's declining fortunes. But Motorola still has a solid business in lower-margin chips, and under Ruiz, the sector is trying to expand into new markets.

Even allowing for the long-range, risk-taking strategy that is a Motorola—and a Galvin—hallmark, some outsiders are concerned that the company's batting average in launching new businesses is slipping. In perhaps its biggest recent failure, Motorola poured millions into its handheld organizers, the Envoy and Marco,



NUTS AND BOLTS: CDO Downey has ample experience on the factory floor

before discontinuing them last year because of lack of demand.

Now, Galvin's largest financial gambit is Iridium, the satellite-communications network that will allow travelers to receive calls anywhere on the planet. Backed by Motorola and others, Iridium plans to spend \$5 billion for a 66-satellite system to provide high-quality digital voice-and-paging service. The potential payoff is huge: Motorola will supply two generations of Iridium satellites while developing expertise it will use to launch at least two more systems.

Industry watchers are skeptical. The rapid growth of ground cellular systems has cut Iridium's potential market. And competing systems—most notably Globalstar, backed by Loral Space & Communications Ltd.—are cheap enough that they plan to offer calls for less than half

the \$3 a minute Iridium plans to charge.

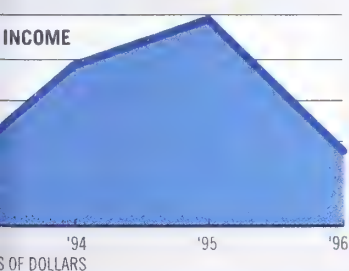
Motorola has intriguing new ventures, which Galvin backs with money and people. Most promising: the cable-modem, car-navigation, and software-modem businesses. But few seem likely to bring in significant revenue, and others are years from maturation. For example, the aggressive development of cable modems is meant to capitalize on the Internet boom. But "I'd have a hard time saying that will be a commercial success anytime soon," says Flag Investors' Behrens.

Galvin should have the benefit of a tailwind in the months ahead, as demand for both cellular phones and semiconductors improves. Already, in the fourth quarter of 1996, sales in the general-systems sector, which includes cellular services, increased 17%.

But what Motorola needs most, as Galvin continually tells executives, is "renewal." It must develop technologies that give rise to new industries. That's what his grandfather did with car radios, and that's what his father did with cellular communications. All his life, Chris Galvin has followed closely in Robert Galvin's footsteps. Now, he must blaze his own trail. Where does Motorola's future success lie? In Iridium? In cable modems? In some as-yet-unknown technology? To prove he's worthy of his inheritance, Chris Galvin must find the answer.

By Peter Elstrom in Chicago, with Gail Edmondson in Paris and Eric Schine in Los Angeles

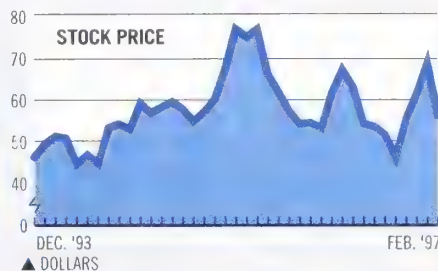
...AND SENT EARNINGS TUMBLING...



S OF DOLLARS

DATA: BLOOMBERG FINANCIAL MARKETS

...PUSHING MOTOROLA'S STOCK DOWN



▲ DOLLARS



MARKETS

BEAR FUNDS ARE LICKING THEIR CHOPS

Seven funds that suffered through the Dow's streak see a juicy, falling market dead ahead

Apocalypse soon? With the stock market relentlessly going through thousand-point markers like so much kindling, some nervous investors are worrying about what would happen to their portfolios if the great '90s bull market should slip abruptly into reverse.

Not to worry, say mutual-fund industry bears. Although most of the nation's 6,270 mutual funds are more or less oriented to rising markets, a hardy though severely battered band of seven so-called bear-market funds are braced for Armageddon. They have deliberately structured themselves, through such techniques as short positions and put options, to hedge against major market declines or even make a profit.

HERE AT LAST? So far, of course, most of the bear funds have achieved lousy results over the past year or so (table), which isn't surprising considering the market has not gone their way. But some bear-fund managers insist their time has finally arrived. "The market is way overvalued...and if we have a

bear market, we'll outperform almost every other fund," claims Paul Stephens, manager of the Robertson Stephens Contrarian fund. Charles Minter, co-manager of two Comstock bear funds, predicts at least a 30% drop in the market this year.

A handful of investors apparently agree. Most bear funds have seen steady redemptions for the last few years, but in the days following recent remarks by Fed Chairman Alan Greenspan about the overheated market, some funds reported spurts of new money. Michael Byrum, manager of the Rydex Ursa (Latin for "female bear") fund, says \$60 million flowed into his fund in the first three days after Greenspan's Feb. 26 speech, boosting assets 25%. Some \$7 million flowed into the Lindner Bulwark Fund on Mar. 3, bringing assets to \$82 million. Still, flows into bear funds are raindrops compared to the vast sums still moving into traditional equity funds.

Of course, investors don't have to invest in bear funds in order to escape

danger. One can merely switch into cash or money-market funds. The bear funds, though, try to do better than cash. A few of the funds have demonstrated that skill during brief downturns over the past few years. But the newer ones offer only the promise, of hope, of protection.

Investors who want to consort with the bears may want to look closely at how the bear managers plan to make money when the market finally plunges into the abyss they've been incorrectly predicting for years. Their strategies cover a wide range of global investments with varying degrees of risk. Some are similar to private hedge funds that rely heavily on short-selling, options, and futures.

The most successful bear fund is Stephens' Contrarian fund, the only one in the pack with a five-star rating from Morningstar Inc. The reason: good old-fashioned stock-picking. Stephens believes U.S. stocks are undergoing speculative mania of historic proportions.

Being a bear in a bull market has been "an embarrassing and humiliating experience," admits one fund manager

as, and has positioned his fund for lining stock prices since he started it in 1993. He nearly beat the Standard & Poor's 500-stock index last year by investing in obscure mining and natural resources stocks in Third World countries. The fund is also heavily hedged. Stephens keeps about 25% of his fund in short sales, and he's been one of the few to make money at it. Short positions as of Dec. 31 are dominated by health-care and technology issues, including Avant, Sensormatic Electronics, and Stryker. Stephens also buys S&P 500 put options, which make money for the fund only when the market drops.

Stephens. Last year's best-performing bear fund, the Lindner Bulwark Fund, followed a similar hedge-fund-like strategy. Bulwark's big gains came from long and short positions in natural resources stocks. Manager Eric Ryback says he is worried about rising interest rates this year and has positioned the fund for a 12- to 18-month bear market. He has put 10% of the fund into short futures as an interest rate hedge, and he has invested in S&P 500 and NASDAQ options. The rest of the fund is defensive as well. An additional 14% is in cash, 21% is in short sales, and the remainder is concentrated in natural resources stocks.

The other bear funds chalked up negative returns last year, compared with a 9.6% gain by the S&P. But not for lack of trying. One of the most aggressive bear funds going is the year-old Prudent Bear fund. Manager David Tice says he's positioned the fund for a long-term market decline that could take a decade for stocks to break even. He has sold short 57% of the fund's assets and has puts on the S&P 400 midcap index and the Morgan Stanley High-Tech Index. The \$15 million fund dropped 14% last year and is off 3.4% this year. But

Tice says it will go up sharply if the market declines. When it dropped sharply in the summer of 1996—with the S&P 500 down 7.4% between May 24 and July 24—the Prudent Bear fund was up 14%, Tice says.

Few bear funds have had as bad a time as the Mathers fund. The fund has been bracing for a disaster since the mid-1980s, holding about 50% in cash and betting against the market by selling stock-index futures short. Since 1991 it has returned about 1.5% a

bear funds at Comstock Partners Inc., is betting on a similarly gloomy future. His Comstock Strategy fund is 65% invested in short-term bonds, while his more aggressive Comstock Capital Value Fund is loaded with S&P index options and short positions in technology and capital-goods stocks. Minter draws parallels between today's market and the period before the 1929. "Even in the midst of a frenzied buying spree, even the most intelligent and astute of observers find seemingly rational

reasons to justify the excesses," Minter says.

The Ursa fund takes the most direct approach possible to profiting from a bear market. It doesn't make any macroeconomic bets but simply positions itself for down markets at all times. It invests up to 5% of its assets in S&P put options. The rest of the fund is invested in government bonds, which provide income as a hedge if the market goes up. The goal is to inversely reflect the S&P, so the fund goes up 1% for every 1% the S&P declines. With bonds as a hedge, the fund tends to decline only 75% as much as the market gains.

Ursa, though, has a dismal record, having lost nearly a third of investors' money since

the fund was launched in 1994. But its mechanical approach performs as advertised. When the S&P fell 2.6% in the first three days after Greenspan's comments, Ursa was up 3%. Ursa has a \$25,000 minimum investment and is designed for professional investors who use it to time the market or hedge other investments, says manager Mike Byrum. "This is not a buy-and-hold, mom-and-pop fund."

But if the apocalypse really seems imminent, some moms, pops, and maybe even a couple of the kids might want to check it out.

By Geoffrey Smith in Boston

Recipes for Disaster

	1996 RETURN	YTD *	STRATEGY
LINDNER BULWARK	28.77	+1.5%	Aims to prosper in inflation-induced bear market; holds gold stocks and big short positions
ROBERTSON STEPHENS CONTRARIAN	21.69	+4.6%	Global stock holdings hedged with short positions and futures
MATHERS	-0.07	+2.0%	Large bond holdings are combined with gold stocks and short positions in S&P futures
COMSTOCK PARTNERS STRATEGY A	-1.26	-0.5%	Buys mainly bonds and gold stocks
COMSTOCK PARTNERS CAP. VALUE A	-5.67	-2.3%	Takes big short positions and buys put options betting against the market
RYDEX URSA	-12.44	-5.5%	Tries to move in opposite direction of S&P 500 through use of futures and options
PRUDENT BEAR	-13.69	-3.4%	Sells stocks short and buys options betting against the market
S&P 500 INDEX	22.96	+6.8%	

DATA: BUSINESS WEEK, MORNINGSTAR INC.

* AS OF MARCH 4

year, making it one of the nation's worst-performing funds. "It's been an embarrassing and humiliating experience," says Mathers fund manager Henry G. Van der Eb Jr. Nevertheless, Van der Eb is sticking with his strategy in 1997. Through March 4, he's up 2%. His best hope for a turnaround is that his economic forecast proves correct: that the U.S. economy suffers a semi-deflationary recession that will trigger a decline in corporate profits followed by a bear market similar to the one now being experienced by Japan.

Charles L. Minter, manager of two

BONDS

WHERE THE JUNK BIZ IS REALLY JUMPING

High-growth companies abroad make for a hot bond market

Last August, Brazil's NetSat Serviços Ltda., a unit of a telecommunications consortium owned by News Corp., Tele-Communications Inc. and Globo, a Brazilian media conglomerate, needed \$200 million to bankroll an ambitious satellite-TV startup. Like many entrepreneurial U.S. companies, it turned to the junk-bond market. Yes, the junk-bond market.

Two decades after Michael R. Milken created a brand new source of financing for capital-starved, lower-tier American companies, investment bankers of all stripes are combing Latin America, Asia, and Eastern Europe as well as industrialized nations for opportunities to arrange high-yield debt offerings. Fueled by continued economic growth in emerging markets, low interest rates, and enormous global liquidity, the international junk market, which three years ago barely existed for non-U.S. issuers, is expanding dramatically. In 1996, high-yield debt issuance by foreign companies surged to \$10.37 billion, or 58 issues, from the 34 offerings valued at \$7.14 billion brought to market in 1995, according to Merrill Lynch & Co.

In contrast to the U.S. high-yield market, which endured years of snickering before it gained mainstream acceptance, the overseas junk-bond business seems to have achieved instant respectability. "High-yield capital is helping to build the infrastructure and increase growth" in developing countries, says Christopher A. Johnson, Merrill's head of high-yield finance. Merrill and Morgan Stanley & Co. dominate the business with a 20% share each.

Many overseas borrowers, especially emerging-market companies and overseas units of U.S.-based companies, actually prefer junk bonds over bank financing or traditional Eurobonds to fund long-term growth plans. Banking systems in developing countries tend to be



MERRILL'S JOHNSON: *Junk helps build infrastructure*

inefficient and unreliable, and Eurobonds carry maturities of from 3 to 7 years, compared with 8 to 10 years or more for junk issues. "In some emerging markets, corporate growth is outstripping the ability of banks to fund it," says Seth P. Bernstein, a J.P. Morgan & Co. managing director.

Global junk is attracting plenty of investors, about half of whom are U.S. mutual funds. Bankers say overseas issuers are actually in better financial

shape than similarly rated U.S. companies. Adalberto Vianna, chief executive officer of São Paulo-based NetSat, says he isn't worried about the company's ability to repay its debt, which was raised by a Merrill Lynch-led syndicate. "We don't need tremendous economic growth for [the venture] to work."

Yet overseas high-yield securities are rated lower by major U.S. rating agencies because their ratings generally cannot exceed the so-called "sovereign cap"

their home country. A B-rated foreign company is likely to boast debt-service ratios that would earn it a BBB rating if it were a U.S. company, says Richard Johnston, managing director of OFFITBANK, an investment management firm. As a result, these securities, most of which are initially offered as private placements and then registered with the Securities & Exchange Commission, typically trade at just 10 to 150 basis points over comparable U.S. junk issues. Since 1993, they have generated average annual total returns of about 28%, compared with about 22% for U.S. issues. Says Johnston: "We're looking for world-class companies with bad addresses."

These securities aren't risk-free. Currency devaluations could jeopardize repayment. If markets turn sour, it may be hard for investors to find buyers. Regulatory risk is also a worry. About 40% of all issuers are media and telecom companies, whose prospects fluctuate with local rule changes. Some junk buyers, like Hari N. Hariharan, a managing director at Banco Santander's New York asset management unit, say that late "some froth" has gotten into the market.

Within five years, more than half of all junk issues will be for foreign companies, compared with just 15% in 1996, says William Kourakos, head of global high-yield capital markets at Morgan Stanley. But the U.S. experience is an indication, investors had better be prepared for some indigestion.

*By Phillip L. Zweig
New York, with Ian Kaurin
in São Paulo*

HIGH YIELD'S GLOBAL REACH

ISSUER	AMOUNT (MILLIONS)/ COUPON (%)	COUNTRY	LEAD MANAGER
NETSAT SERVIÇOS	\$200/12.750	Brazil	Merrill Lynch
AES CHINA GENERATING	\$180/10.125	China	Morgan Stanley
POLAND COMMUNICATIONS	\$130/9.875	Poland	Merrill Lynch
FSW INT'L FINANCE	\$135/12.5	Indonesia	J.P. Morgan
INT'L CABLETEL	\$400/10	Britain	Donaldson, Lufkin & Jenrette
METROGAS	\$100/10.875	Argentina	Goldman, Sachs

DATA: SECURITIES DATA CORP., MERRILL LYNCH & CO.



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The
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Classic

BY GENE G. MARCIAL

A SHOT IN THE ARM FOR HUMANA

A not-so-funny thing happened to Humana (HUM) over the past two years. As the Dow Jones industrial average advanced more than 3,000 points, Humana shares went nowhere in 1995 and slumped from 27 to 17 in 1996. Humana continued to meander this year—until Mar. 3 and 4, when the stock zoomed to more than 21 on volume of 2 million shares each day, compared with an average volume of 600,000 shares. The reason: takeover.

FEELING THE RUSH



Humana, one of the nation's largest providers of managed health care, is the target of at least one big insurer, according to money managers who have been avidly buying shares. These pros think that Humana, which serves 4.4 million members in its health-maintenance organizations and preferred-provider organizations, has had talks with the potential buyers and is expected to reach an agreement before long. They think that the company, which has a market capitalization of about \$3.4 billion, should fetch \$4.5 billion to \$4.8 billion, or 28 to 30 a share, in a buyout.

"Humana is now the prime target among HMOs," says analyst Robert Gold of Standard & Poor's. That's the only reason to be bullish about Humana, he adds, noting that it has struggled in recent quarters to maintain profit margins and meet earnings expectations.

As insurers consolidate, several have been acquiring HMOs in the hope of bolstering their role in managed care. "They recognize that is where their big future growth lies," says Gold.

The most recent insurance deal is

CIGNA's \$1.4 billion agreement in early March to buy Healthsource—tagged earlier by this magazine as a takeover target (BW—Dec. 30). Some investors reckon CIGNA may swallow Humana, too. Gold, however, thinks the most logical acquirer is Prudential Insurance. "Prudential hasn't been too successful in health care, so it needs to go into managed care in a big way," explains the analyst. Humana's top brass were traveling and couldn't be reached. Prudential denies the rumor.

PEPPED UP OVER CHRONIC FATIGUE

We aren't biotech investors, "but we've bought into Hemispherx BioPharma—the only biotech in our portfolio," says Richard Sinise of Kennedy Capital Management in St. Louis, which manages some \$1.5 billion. Sinise isn't the only believer. Investors Larry Tisch and Gerry Tsai also are stakeholders in the young company. What's so hot about Hemispherx (HEMX)? The stock sure hasn't been on a roll: Now at 2½, it has traded between 2 and 4 since July.

The company has a portfolio of 200 patents for technologies that use ribonucleic-acid molecules in products to treat viral diseases, certain cancers, and immune-system dysfunction. One of its major products is Ampligen, now in its third clinical tests for treatment of chronic fatigue syndrome (CFS), hepatitis B, and HIV. The trials, approved by the Food & Drug Administration, are under way in 30 sites.

An Ampligen diagnostic-test kit has received patent approval in 10 European countries. It checks blood cells for immune deficits believed to be characteristic of CFS. The Centers for Disease Control & Prevention has included CFS as a "priority one disease" on its list of "new, reemerging, and drug-resistant infectious diseases," says Dr. William Carter, chairman and CEO of Hemispherx. There isn't any approved therapy for CFS, he says, adding that a protocol using Ampligen for treatment of CFS patients has been submitted to the FDA for approval. Ampligen, he claims, relieves all the symptoms of CFS, including pain. Carter says Hemispherx has signed a manufacturing pact with Pharmacia-Upjohn, which has taken a 2% stake in Hemispherx.

Analyst David Watumull of First Honolulu Securities, says Hemi-

spherx—"at just \$140 million in market cap—represents a compelling investment value."

LEANING HARD ON BANISTER

The Dow's strength, despite recent pullbacks, has made it difficult for money managers to keep up. Mike Connor is among the few who were able to outscore the index last year: His hedge fund, C-B Partners, gained 57%—more than twice the Dow advance.

What does Connor favor this year? "An old favorite I've resumed buying is Banister Foundation (BAN), formerly Banister Inc.," he says. Trading on the American Stock Exchange at 10, Banister is the largest public construction outfit in Canada. It also operates in the U.S., Europe, and Asia. After recovering from Canada's slump and some bad contracts in 1994 and 1995, Banister has resumed robust growth lining up big projects in China, Hungary, India, and Israel, notes Connor.

Aside from its improving fundamentals, however, Banister "could end up breaking itself up or being sold to a large engineering or construction company," he says. Trimac, a Canadian conglomerate that owns 23% of Banister, is apt to push the company to maximize shareholder value. Connor says Trimac might just unload its stake—a move, he says, that could effectively put the company in play.

Behind Trimac's zeal for shareholder value, says Connor, is pressure from a group including Texas investor Robert Bass, who owns a 10.7% voting interest in Trimac. Bass is pressing Trimac to boost Trimac's stock—and one suggestion has been to do something with Trimac's huge Banister stake.

The breakup value of Banister stock figures Connor, is 18. After last year's earnings of 82¢ a share, he sees it making \$1.22 this year and \$1.66 in 1998. A Banister official says he hopes Trimac will talk to Banister about its plans for its stake.

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UNIONS

WHY FORD IS RIDING SHOTGUN FOR THE UAW

To mollify the union, it's helping to organize parts suppliers

United Auto Workers President Stephen P. Yokich is grinning like a Cheshire cat these days. In mid-February, the UAW won fat pay hikes for new union members who mounted a 24-day strike at two Johnson Controls Inc. auto parts plants. They got a crucial assist from Ford Motor Co., which spurned parts made by replacement workers Johnson had hired to defeat the strikers. Now, the UAW plans to repeat the move at other parts suppliers. The goal: to use the union's leverage at

ford to reverse the union's decades-long membership slide (chart). He says he's doubling the ranks of organizers and creating new regional organizing offices. With 300,000 or so nonunion workers making auto parts, "our membership is going to go up again," Yokich vows.

The auto parts industry, however, is determined to prevent union inroads. "The major suppliers are very worried about what happened at Johnson Controls and have registered their concerns with [Ford CEO Alexander J.] Trotman,"

1996 contract talks, Yokich wanted Ford to agree to encourage suppliers not oppose unionization drives. Ford lab relations honcho Peter J. Pestillo, a personal friend of Yokich, seemed willing to go along. Ford ultimately refused, citing legal worries. Now, suppliers fear that Ford is helping Yokich anyway. Indeed, Ford has made clear the high value it places on the union's cooperation in boosting shop-floor productivity. Trotman says little to allay suppliers' concerns. When asked if he supports UAW efforts to unionize suppliers, Trotman told BUSINESS WEEK: "We're not shy about making it plain that we have a very good relationship with the UAW."

The other two Detroit carmakers seem much less willing to lend the UAW a hand with its campaign. "Honestly, we don't understand [Ford]," says J. T. B. Tenberg, chief of General Motors Corp. parts unit. A Chrysler Corp. exec sa



THE UAW IS TARGETING AUTO PARTS MAKERS...

U.S. EMPLOYEES IN AUTO PARTS MANUFACTURING		
	UNION	NONUNION
DANA	10,500	24,500
JOHNSON CONTROLS	1,600	10,300
TENNECO	900	6,300

...TO HELP REVERSE ITS MEMBERSHIP SLIDE



DATA: BUSINESS WEEK, UNITED AUTO WORKERS

WHO'S NEXT?

The UAW has been at Johnson Controls for several months, and the union is now spreading its efforts to other suppliers.

all three Detroit carmakers to mount a broad recruitment drive in the mostly nonunion auto parts industry. Ford's action "is very new and exciting," says Yokich.

His experiment at Johnson Controls is being closely watched by other unions as a potentially potent new recruitment method for labor. Like the UAW, many unions represent workers at large companies whose suppliers are nonunion. AFL-CIO officials are urging unions of all industries to wage organizing drives at the suppliers and demand help from the unionized companies—or threaten sympathy strikes if they accept parts from a reluctant supplier. "Unions need to use their relationships with current employers to unionize suppliers, and the UAW is showing the way," says Nancy Mills, head of the AFL-CIO's new Center for Workplace Democracy.

For Yokich, the move is part of an ef-

fort to reverse the union's decades-long membership slide (chart). He says he's doubling the ranks of organizers and creating new regional organizing offices. With 300,000 or so nonunion workers making auto parts, "our membership is going to go up again," Yokich vows.

SINGULAR RELATIONS. Johnson went along and ultimately agreed to most of the union's pay demands. But it refused to remain neutral in future UAW organizing drives. So the union struck on Jan. 28. When Johnson tried to supply Ford by using replacement workers, Ford again backed the union and refused to take the nonunion-made components. In the end, the UAW conceded that Johnson could abandon its neutrality in the future, and Johnson agreed to lift wages by up to 33% by 1999.

Yokich won't find it easy to repeat the victory. For one thing, Ford's relations with the UAW are singular. In the

"We would never do what Ford did."

Yokich may yet be able to force their hand. For one thing, the UAW could stage strikes at suppliers over the right to unionize. "That would put Detroit on the spot," says a supplier labor-relations official, because auto makers would risk sympathy walkouts in their own plants if they accepted parts made by supplier replacement workers. True, the union legally can't strike the Big Three over labor battles at suppliers. But the UAW can always find a pretext, such as safety violations. "We're going to be very active" at suppliers, vows UAW regional director Bob Kirshenbaum.

Not all suppliers think that's bad. Lear Corp., with 60% of its 33,000 employees unionized, would benefit if the UAW equalized industry labor costs. "We're not opposing" the UAW's organizing drives, says Lear CEO Kenneth Way. For most other suppliers, however, the smile on Yokich's face is a sign of trouble ahead.

By Bill Vlasic in Detroit, with Aaron Bernstein in Washington

What do you want people to see?™



I want you to see
that simple is better.

I want you to see the
dangerous combination of
Dad and video camera.

I want you to see a
reflection of my children.

John is wearing Brooks Brothers eyewear.

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COMPUTERS

APPLE: WHAT IS STEVE JOBS UP TO?

Apple's founder keeps denying he has designs on the top job. Why won't people believe him?

On the wall of a cubicle in Apple Computer Inc.'s Infinite Loop engineering campus hangs a picture of Steven P. Jobs, the 41-year-old high-tech superstar and legendary Apple co-founder. Above the photograph are the words: "I was here when Steve came back." In the adjoining cubicle, the same picture is tacked up on the wall with the caption: "He'll be here when Gil leaves."

Welcome to the latest installment of Silicon Valley's most-watched soap opera. Since Dec. 20, when Jobs sold NEXT Software Inc. to Apple for \$430 million and became an adviser to Apple CEO Gilbert F. Amelio, the computer industry has been rife with talk that Jobs was out to retake the company he founded 20 years ago. These days, every doing at Apple is examined for the Jobs factor—a management change could be a power play, a strategy shift might be proof Jobs is remaking the company, a new product direction becomes confirmation that the good old days of "insanely great products" are returning.

NIXING NEWTON. The reality? Jobs is indeed back, putting his imprint on everything from executive hiring to a massive reorganization now in the works. But, says Jobs, forget once and for all the rumors of a palace coup. His heart is still with the company he started in his parents' garage, but his mind is on other things—such as running his computer animation studio, Pixar Inc. "People keep trying to suck me in," says Jobs. "They want me to be some kind of Superman. But I have no desire to run Apple Computer. I deny it at every turn, but nobody believes me."

Some of the confusion could stem from the impact Jobs already is having in just 11 weeks. Working only a half-day a week on Apple, he has persuaded Amelio to overhaul his executive

staff—now, half of the eight-member team are Jobs's recommendations. Jobs's fingerprints are all over Amelio's restructuring plan due on March 14, say Apple managers. Jobs, for example, urged Amelio to shed the Newton handheld group started by former CEO John Sculley, who bounced Jobs from Apple in 1985. Now, Amelio is looking to sell or spin off the unit. Jobs also is pushing a plan to raise licensing fees to cloners.

Then there's research and development. As Amelio hunts for \$400 million in expense cuts, he's following Jobs' advice by targeting Apple's advanced research group. Jobs argued hard for cutbacks, saying Apple should use its best brains to build snazzy new Mac products rather than futuristic gee-whiz technologies. Apple managers say Amelio is now considering slashing the advanced R&D group, which spent \$30 million last year, by more than 50%. "The whole focus is to get lean, mean teams doing great things again," says one manager. "That's the Steve Jobs influence, and that's good."

Amelio couldn't agree more. When he took over the CEO job a year ago, the company was in a shambles. Its Macintosh computers were no longer standouts after the arrival of Microsoft Corp.'s Windows 95. Sales had stalled, losses were mounting, and top executives were fleeing the company. Over the past year, Amelio has tried reversing the slide by propping up the balance sheet, fixing the Mac's embarrassing quality snafus and, in a last ditch effort, slashing prices—but no luck. In the past year, Apple's market share has plunged from 7.9% to 5.2%, and the company has racked up \$936 million in losses over the last five quarters. What's more, the loss this quarter could top \$600 million as Apple pays for NEXT and the upcoming restructuring.

Now Amelio is shedding his by-the-book turnaround tactics to try everything—including Jobs. He says their give-and-take discussions are a partnership that can only benefit Apple. And, more often than not, the two see eye-to-

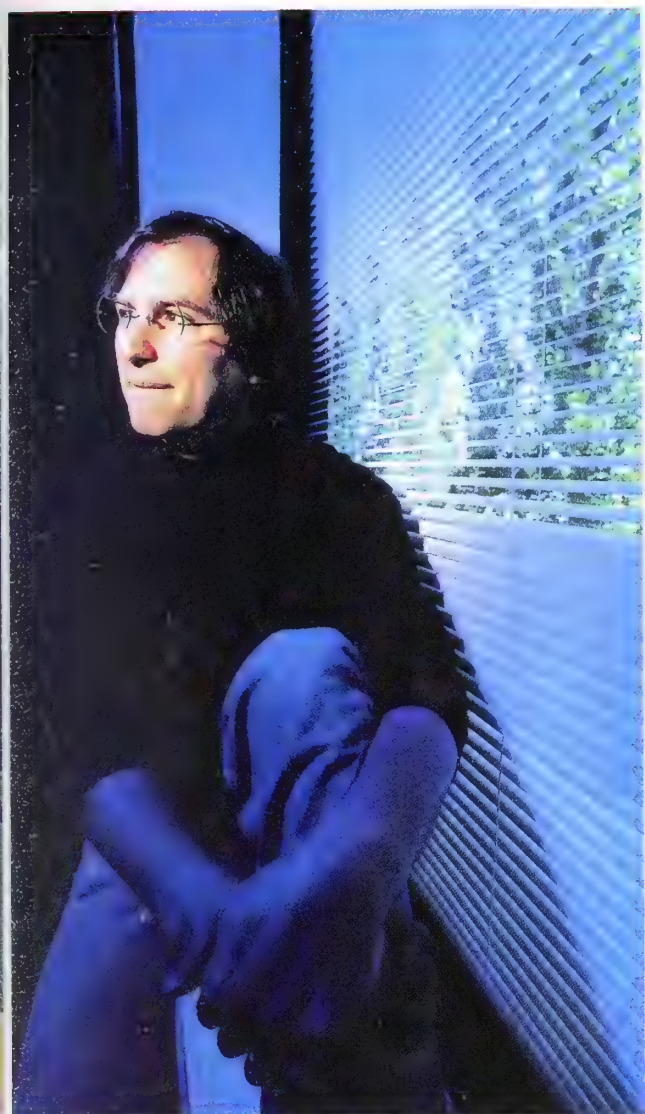


CEO AMELIO: "This time, I'm going to use the two-by-four approach"

eye. "That doesn't mean all the ideas are Steve's," he says.

In early February, for example, Jobs took a view of an advertising campaign backed by Amelio. He listened intently, then launched into a speech about why advertising was a waste of money given the bad press that still plagues Apple. Amelio still approved the media campaign. "Gil doesn't take all of Steve's advice or all of anyone's advice," says Fred D. Anderson, Apple's chief financial officer. "With all due respect, we have some seasoned executives here." As for Jobs's popularity at Apple, if Amelio is ruffled, he isn't showing it. "If the prospect for getting Apple healthy is involving Steve... I'm O.K. with that. I'm a big boy," he says.

Besides, Amelio says he's all for getting tougher himself. He concedes,



POSITION FILLED: PART-TIME ADVISER WITH FULL-TIME INFLUENCE

*Signs of Steve Jobs's
clout since selling
NeXT to Apple*

PERSONNEL NeXT vets take over top spots as Gil Amelio's recruits are demoted. All told, Jobs pushed for the promotion of four managers on Amelio's new eight-person executive committee.

RESTRUCTURING Seeking \$400 million in expense cuts, Amelio is expected to drastically pare back Apple's central R&D lab—one of several areas suggested by Jobs.

PRODUCTS Jobs is urging Apple to focus on newfangled network computers that exploit the rise of the Internet.

MARKETING Criticized for its fuzzy, feel-good marketing, Amelio has gone on the attack with tough-talking ads. Inside Apple, Jobs's old "insanely great products" slogan is again the mantra.

derestimated the challenge of reining Apple's unruly culture. "I didn't realize but people would listen to me, say 'that was a nice speech,' and go what they wanted," says Amelio, 54, who came to Apple from National Semiconductor Corp. "This time, I'm going to the two-by-four approach. I'm going to put this place through the most gut-wrenching change it's ever had." Starting with Jobs. So far, his major role has been as Amelio's unofficial cast-director. Within days of the NeXT acquisition, Jobs began lobbying for the promotion of Chief Operating Officer Michael Landi and chief technologist John Hancock, whom he repeatedly referred to as a "bozo," say Apple managers. Both executives, Jobs says, lack personal-computer experience and the entrepreneurial zeal that made Apple

JOBS: "They want me to be... Superman. But I have no desire to run Apple"

the technology leader it once was. On Feb. 4, Jobs got his way when Landi was bumped down to head of sales—he resigned two weeks later—and Hancock was stripped of her R&D duties.

Now, half of Amelio's management team is made up of fresh blood. R&D will be shared by NeXT software chief Avadis Tevanian Jr. and Jon Rubinstein, a hardware engineer who worked under Jobs for three years at NeXT. Jobs also urged Amelio to promote Guerrino De Luca, formerly head of Apple's Claris Corp. software unit, to marketing czar. And he pushed for the rehiring of David S. Manovich, a former salesman, as Apple's head of sales.

One of Jobs's most powerful tools may be E-mail. He rarely makes it to senior executive meetings, relying instead on occasional appearances, several phone conversations with Amelio each week, and a steady stream of electronic missives. Take the proposed R&D cuts.

While managers in that sector have argued that great companies spend upwards of 8% of R&D on advanced research, Jobs isn't buying it. He says that Apple can't afford that luxury. When researchers agreed to slightly deeper cuts, Jobs shot back: "Why do we need any [advanced research] at all?" Says Rubinstein: "One thing you can always be sure of is that Steve will have opinions." But Rubinstein also is quick to say Amelio is the one running the company. "I'm working for Gil," he says.

"DYNAMIC." So far, the two seem to complement one another. Apple executives say Amelio, smarting from the lost ground of the past year, was ready to make big changes even before Jobs's return. But with Jobs's prodding, he's moving quickly. Case in point: Even though Jobs has been vocal about dropping products, it's Amelio who is taking action. At a recent staff meeting, Amelio had managers list all projects in order of priority. He then began cutting from the bottom. Two casualties that day: Open-

Doc, a technology devised with IBM Corp. that was supposed to streamline the way software is developed, and computer servers that run IBM's AIX operating software.

Indeed, far from the presumed plots and palace coups, Jobs and Amelio have forged an unlikely—and possibly potent—partnership. "If they can work together, it's a pretty dynamic duo," says Bob Miles, a consultant to Amelio.

If only the rumors would subside. Jobs is doing what he can to squelch talk that he's after Amelio's job. He even chastised his close friend, Oracle Corp. Chairman Larry Ellison, for telling the press he would bankroll Jobs in a takeover bid for Apple. "I chewed him out," says Jobs. "I don't know where Larry got that."

For once, there may be less melodrama than meets the eye for Apple soap-watchers.

By Peter Burrows in San Francisco

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EDITED BY EDWARD C. BAIG

BEWARE THE TIES THAT BIND

When H.J. Heinz wooed Daniel O'Neill away from a senior-level job at Campbell Soup, he probably should have known better. O'Neill had signed an agreement with Campbell that prohibited him from working for a competitor

EMPLOYMENT

for 18 months after his departure, and Campbell wasn't willing to let him go. The two companies slugged it out in court and, in mid-February, reached a settlement stating that O'Neill can't work at Heinz for another seven months. Once he finally takes up his new position, O'Neill must keep a daily log of his business meetings for 11 months (which are to be monitored by an independent auditor) to assure no transfer of trade secrets or confidential information.

Like Campbell, more and more companies are insisting upon—and vigorously enforcing—employment agreements that limit your future career mobility. A few years ago, only the top brass had to concern themselves with such agreements. Today, more midlevel executives are being asked to sign, too. "If you're valuable, companies want to lock you in," says Alan Sklover, an employment lawyer in Manhattan.

SECURITY. Unlike the old employment "contracts" that tied an executive to a company for a period of years, these new agreements offer workers a different kind of security. In this era of white-collar layoffs, most employees want to know what will happen if their job is eliminated. How much severance pay will they receive? What

about health insurance, retirement benefits, and other compensation? Employment agreements will generally provide better-than-average severance deals (at least six months' pay for a company vice-president), says Alan Johnson, a compensation consultant in New York.

In return for accepting employment restrictions, you can negotiate a host of other details, says Jack Egan, a partner with Curtis, Mallet-Prevost, Colt & Mosle, a New York law firm. Short of getting season passes to the opera, you can probably win a generous sign-on bonus, stock options, and maybe even have your new employer kick in a state-of-the-art home office. You may also wrangle an employment guarantee. Some agreements still offer term limits. "If you're hired to handle a turnaround situation, you'll want some type of assurance that they don't expect you to do it overnight," says Claire Stoddard, vice-president at Drake Beam Morin, a leading outplacement firm.

These golden handshakes don't come without a price, however. With all the perks, come a handful of restrictive covenants, or clauses, that basically limit your ability to work elsewhere. A "nonsolicitation" clause, for instance, typically prohibits you from stealing the company's clients or recruiting your former employer's staff for a year or two. Some "payback" clauses insist that you not take another job until you have repaid the company any expenses incurred in your relocation and recruitment.



another less common
se mandates that the
pany must have an op-
unity to match any offer
you get. "If your em-
er matches the offer, you
t remain," says Sklover.
at could make it very dif-
t to go elsewhere."
robably the most-read—
in some cases, misread—
ion these days is the
noncompete" clause, which
s you from working for a
et competitor should you
e your current post. Gen-
ly, that restriction could
d for six months to two
rs, depending upon your
icular agreement. Beyond
t time, presumably any
keting and sales plan,
duct development strate-
or client list that you
d divulge would no longer
of much use to any com-
tor out there.

Don't confuse this issue
a simple confidentiality,
nondisclosure," clause. This
mon restriction states that
employees shouldn't share
company informa-
with outsiders, says
n, whose law firm insists
t all of its employees ad-
e to the restriction. "We
t want our staff talking in
elevator about the
es we handle," he
s.

Noncompetes, on the
er hand, are far
re stringent and
d affect your ability
and a new job. Gen-
ly, a noncompete is
ective whether your
has been eliminat-
you've been fired, or
leave voluntarily. If
have been issued a
k slip, comments
ver, you could be in
eal bind, especially if
r job search is limited to
t a few potential employ-
e. There are several gray
as, of course. Often you
work for a competitor as
g as you are responsible
a completely different
duct line.

If you do break an agree-
nt, however, your former
s can not only sue but

More companies are insisting on job accords that limit your career mobility—so negotiate carefully

may also be able to get an
injunction to stop you from
working until the case is re-
solved. Although laws vary
from state to state, most
courts will enforce noncom-
petes—as long as they're rea-
sonable. That means they
must limit the time period
and territory covered to a
reasonable duration and dis-

your employment in all 50
states.

Just because the company
insists that you sign such a
clause doesn't mean you're
obligated to accept all of its
terms. You can negotiate
some of the fine points, says
Sklover. First, ask that the
noncompete be applicable
only if you leave your job
voluntarily. If you're laid off
or fired, says Sklover, it
doesn't make sense to pre-
vent you from working else-
where. Second, ask for a
more limited definition of the
term "the competition." Some
employers will specify their
competitors by name. Finally,
you should have an attorney
review the agreement.

You're most likely to be hit
with a noncompete before
you sign up with a new em-
ployer. But you may be hand-
ed one at your present com-
pany if you have recently
been promoted to a new po-
sition, especially if you're now
pry to confidential market-
ing plans. Even if you're al-
ready on the job, you should
expect some "considera-
tion"—either a salary in-
crease or a significant promo-
tion—in exchange for signing
such a clause.

atives at John Wiley & Sons,
a New York-based publishing
house, must forfeit the gain
received on exercising options
made six months prior to
their termination, if they
leave to work for a competi-
tor. At Texas Instruments,
executives may be asked to
fork over gains they received
during the previous three
years.

PROTECTION. Not every com-
pany will necessarily stop you
from heading over to the
competition—even if you've
signed a noncompete clause.
"They're not always en-
forced," says Johnson. "Some
companies just want to slow
you down and make it more
difficult for you to leave."
Other companies are willing
to waive the noncompete as
long as you comply with
some restrictions. Before
David Johnson could take
over his current post as CEO
of Campbell Soup, he had to
wiggle out of a noncompete
at Gerber Products. The com-
pany obliged—once Johnson
promised not to develop baby
soups at Campbell.

Still want to jump ship?
Ask the company trying to
win you over if they will pro-
tect you should your former

employer enforce your
noncompete, says John-
son. Heinz, for instance,
picked up O'Neill's le-
gal fees and is paying
him a salary for the
next seven months until
he's free to come to
work. If the case goes
to court and your new
company won't pick up
the tab, you could be
unemployed for months
on end.

The biggest mistake
you can make, how-
ever, is not to take

these covenants seriously
enough. When a prospective
employer is offering you a
healthy bonus and other
perks, you might be tempt-
ed to sign almost anything,
says Sklover—especially if
you're convinced there's no
way a court will enforce the
restrictions. But you'd better
think again. *Barbara Hetzer*

Clauses That Fence You In

CLAUSE

NONCOMPETE

COMMENTS

Bars you from working for a competitor for six months to two years. The clause is valid whether you're fired, your job is eliminated, or you leave voluntarily.

NONSOLICITATION

Prohibits you from recruiting key clients or employees away from your former employer for a year or two.

NONDISCLOSURE

A common clause that prohibits you from divulging trade secrets or other proprietary information to outsiders during your employment at a company or after you leave.

DATA, BUSINESS WEEK

tance. In most cases, five
years is too long, says Milli-
cent Meroney, an employment
law attorney with Wilson,
Sonsini, Goodrich & Rosati in
Palo Alto, Calif. But, depend-
ing on the nature of the busi-
ness, your contract could ex-
tend quite a distance. A
software developer, for in-
stance, can probably restrict

Noncompete clauses are
generally found within an em-
ployment agreement. But
sometimes they're outlined
separately or even inserted
into a stock option plan. Under
the latter arrangement,
you could forfeit some of the
money earned exercising your
stock options should you vio-
late your noncompete. Exec-

SCHOOLGIRL EMBROIDERY, GROWN-UP PRICES

In the 100 years between the mid-18th and mid-19th centuries, many well-to-do daughters of farmers, merchants, and ship captains were sent off to schools to learn fancy needlework. Months later, with strained eyes and pricked fingers, these girls, most of whom were in their early teens, proudly presented their parents with a sampler, a patch of linen about 15-by-20-inches painstakingly embroidered in 50 or more

1826 sampler by 14-year-old Anna Braddock of Burlington County, N.J., displaying a schoolhouse, children, and a barnyard, brought the top price of \$145,500, three times the presale estimate.

At those lofty prices, samplers are snapped up by dealers, museums, and wealthy collectors. But many fine-quality works fall in the \$500 to \$5,000 range, and have been appreciating 10% to 20% annually for the past five years, says Finkel. Provenance makes a sampler more valuable, and many

pler time in America when things were centered on the home." Finkel's Philadelphia gallery (215 627-7797) will host a six-day exhibit and sale of 85 samplers on Apr. 11. Prices range from \$800 to \$45,000.

Most samplers were produced under the tutelage of a schoolmistress and can be identified by region or even school. Many early Rhode Island samplers, for instance, have elaborate borders. Philadelphia seamstresses favored flowers and foliage. Students in Hingham, Mass., embroidered dark leaves highlighted by dots of light color.

Signed pieces can be easy to trace. If you're unsure of a sampler's lineage, the Textile Conservation Workshop (914 763-5805) will examine a sam-

are the ones prized by American collectors.

The most valuable samplers are visually appealing and "go to the heart," says Rose Adams of Fairclough Adams (505 982-8700), a dealer in Santa Fe. They be elaborate needlework figures, not just bands of alphabets and numbers. Very such as "Virtue is the Root to Happiness" and "Then us all prepare to die, since death is near and sure. And then it will not signify, if we are rich or poor" were generally chosen by schoolmistresses, not the doing the stitchwork. Most collectors prefer the more beat aphorisms.

QUIRKS. As with any collectible, the workmanship of a sampler is critical. "Look the back. Neatness counts,"

advises William Ormond, a Santa Lake City tiles curator. does condition sampler should be worn or faded. But mistakes don't always make it valuable. "Sometimes words misspelled, [the maker] couldn't get alphabet or vowels all on one line," says Adams. alphabets not be finished do



Sizing Up Samplers

TITLE/PRICE	AUTHOR/PUBLISHER	COMMENTS
COUNTRY ANTIQUES & COLLECTIBLES \$19.95	Dana Gehman Morykan and Harry L. Rinker/ Wallace-Homestead	General antiques price guide includes several pages on samplers.
GIRLHOOD EMBROIDERY \$125	Betty Ring/ Knopf	Two-volume "bible" is the most comprehensive work on sampler history.
SAMPLERS & SAMPLERMAKERS \$40	Mary Jaenes Edmonds/ Rizzoli International	Tells the story behind 80 unique samplers.

DATA BUSINESS WEEK

different stitches. A sampler might be decorated with the alphabet, numerals, houses, birds, or even a pious verse. The maker's name, age, and town might also be included. "They were framed and hung above the mantel as the family's most exciting possession," says Amy Finkel of M. Finkel & Daughter, a Philadelphia antique needlework dealer.

LOFTY. Collectors are just as excited about schoolgirl stitchery these days. At Sotheby's in New York recently, 135 samplers brought in \$1.8 million, twice the presale estimate. An exquisite

come with a tale. John Told, a dealer in Midway, Utah (801 785-5224), sold an 1840 sampler complete with a verse, alphabet, houses, and people, for \$600. New Englander Eliza Parkin, 11, stitched the piece and her family prized the sampler so much that they tucked it among the few goods they were able to push in a handcart all the way to Utah.

Samplers are hot now with Americana collectors because "they're bright, colorful, and beguilingly childlike," says Nancy Druckman, director of Sotheby's Folk Art department. "They represent a sim-

pler and recommend treatment for \$75. (A dealer may not let you do this before a sale, however.) The report may include information on fibers, dyes, and country of origin to help date it. The cost to clean and restore a sampler is between \$300 and \$800. Period framing runs \$250 to \$1,000.

Samplers went out of vogue about 1850. Rich girls began pursuing academic studies, and women who did needlework turned to quilts and rugs. Girls in other countries, particularly England and Germany, made samplers as well, but domestic works

the side of the sampler. Some quirks may add to charm—and value—of piece.

Even the most valuable samplers can be hung on wall, though it's a good idea to let them sit in dark, temperature-controlled storage rooms for six months out the year. They should also be protected behind glass to block out ultraviolet light. Grease and smoke will stain samplers. That means that today's collectors, unlike the proud parents of yesteryear, shouldn't plan to display their samplers above the mantel.

Sandra Darr

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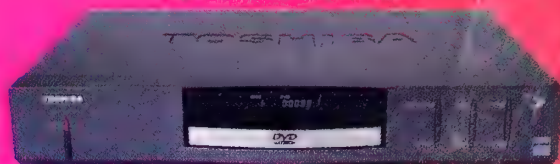
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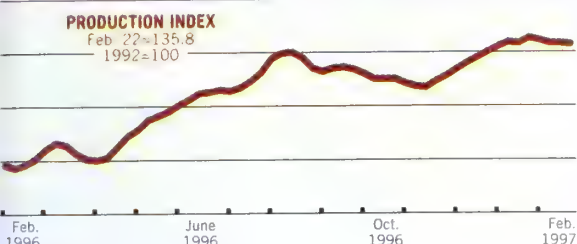


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Business Week Index

PRODUCTION INDEX

Change from last week -0.1%
Change from last year 8.5%



The index is a 4-week moving average.
The production index fell slightly during the week ended Feb. 22. But before calculation of the four-week moving average, the index increased to 136.7, or 135.5. In the latest week, the seasonally adjusted level of truck output and rail-freight traffic rebounded strongly, while auto and coal production also eased. Electric power output declined sharply as unseasonably warm weather swept across parts of the nation.

Production index copyright 1997 by The McGraw-Hill Companies

TRADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STOCK PRICES (2/28) S&P 500	790.82	801.77	22.5
CORPORATE BOND YIELD, Aaa (2/28)	7.38%	7.23%	2.5
INDUSTRIAL MATERIALS PRICES (2/28)	108.4	108.2	-1.0
BUSINESS FAILURES (2/21)	NA	NA	NA
REAL ESTATE LOANS (2/19) billions	NA	NA	NA
MONEY SUPPLY, M2 (2/17) billions	\$3,867.5	\$3,862.1r	4.7
UNEMPLOYMENT (2/22) thous.	316	305r	-11.5

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1990=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
FEDERAL FUNDS (3/4)	5.16%	5.28%	5.13%
COMMERCIAL PAPER (3/5) 3-month	5.46	5.39	5.19
CERTIFICATES OF DEPOSIT (3/5) 3-month	5.43	5.35	5.17
FIXED MORTGAGE (2/28) 30-year	7.86	7.74	7.69
ADJUSTABLE MORTGAGE (2/28) one-year	5.73	5.65	5.50
TIME (2/25)	8.25	8.25	8.25

Sources: Federal Reserve, HSH Associates, Bloomberg Financial Markets

new data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

BIG BOOK

Wednesday, Mar. 12, 2 p.m. EST ▶ The Federal Reserve Board will release its report on regional economic activity as seen by its district banks. The Beige Book is prepared in advance of the Fed's upcoming policy meeting on Mar. 25. Now that Fed Chairman Alan Greenspan has publicly wondered whether worker insecurity is beginning to ease, Fed watchers will be especially interested in Beige Book reports of regional labor shortages and wage gains.

RETAIL SALES

Thursday, Mar. 13, 8:30 a.m. EST ▶ Retail sales probably increased by a healthy 0.5% in February, according to the median fore-

cast of economists surveyed by MMS International, one of The McGraw-Hill Companies. Excluding autos, sales probably also advanced 0.5%. In January, sales were surprisingly strong: Total purchases increased 0.6%, while non-auto buying was up 0.4%.

BUSINESS INVENTORIES

Friday, Mar. 14, 8:30 a.m. EST ▶ Inventories held by manufacturers, wholesalers, and retailers likely rose 0.2% in January, says the MMS report. That follows a 0.1% decline in December.

PRODUCER PRICE INDEX

Friday, Mar. 14, 8:30 a.m. EST ▶ Producer prices for finished goods probably rose just

0.1% in February, even after falling food and energy prices caused a 0.3% decline in the PPI in January. Excluding the food and fuel sectors, core prices likely rose 0.1% in February after no change in January.

INDUSTRIAL PRODUCTION

Friday, Mar. 14, 9:15 a.m. EST ▶ Output at the nation's factories, mines, and utilities probably edged up 0.3% in February, after no change in January, forecasts the MMS survey. That's suggested by the increase in production reported by the National Association of Purchasing Management. Capacity utilization rates for all industry likely averaged 83.4% in February, up slightly from 83.3% in January.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (3/1) thous. of net tons	2,115	2,115#	1.1
AUTOS (3/1) units	136,500	134,271r#	10.3
TRUCKS (3/1) units	140,649	132,137r#	10.9
ELECTRIC POWER (3/1) millions of kilowatt-hrs.	61,225	61,026#	1.1
CRUDE-OIL REFINING (3/1) thous. of bbl./day	13,391	13,422#	-2.9
COAL (2/22) thous. of net tons	21,269#	20,817	1.4
LUMBER (2/22) millions of ft.	498.8#	513.6	10.8
RAIL FREIGHT (2/22) billions of ton-miles	27.2#	27.1	1.9

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPAl, SFPa2, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (3/5) \$/troy oz.	354.500	354.800	-9.9
STEEL SCRAP (2/28) #1 heavy, \$/ton	146.00	145.50	1.0
COPPER (2/28) ¢/lb.	117.0	115.4	-2.5
ALUMINUM (2/28) ¢/lb.	79.3	76.0	6.7
COTTON (3/1) strict low middling 1-1/16 in., ¢/lb	71.38	69.75	-11.1
OIL (3/4) \$/bbl.	20.28	20.45	3.8
CRB FOODSTUFFS (3/4) 1967=100	244.39	241.98	5.5
CRB RAW INDUSTRIALS (3/4) 1967=100	344.31	345.06	4.4

Sources: London Wednesday final setting, Chicago market, Metals Week, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (3/5)	121.43	122.61	105.32
GERMAN MARK (3/5)	1.71	1.69	1.48
BRITISH POUND (3/5)	1.61	1.63	1.53
FRENCH FRANC (3/5)	5.78	5.71	5.05
ITALIAN LIRA (3/5)	1703.8	1681.5	1557.1
CANADIAN DOLLAR (3/5)	1.37	1.37	1.37
MEXICAN PESO (3/5) ¹	8.040	7.782	7.593
TRADE-WEIGHTED DOLLAR INDEX (3/5)	104.8	104.3	96.48

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar via J.P. Morgan

This Week, Online

Business Week presents frequent live conferences and chats on America Online—your opportunity to ask questions about features from the magazine.

BusinessWeek ONLINE

Sunday

Who's trading with Cuba—and what's the latest on Castro's economic game plan? BW's Gail DeGeorge wrote about all this in the current issue, and she leads the discussion. **Mar. 9 9 p.m. EST in the Globe**

Monday

Using stolen software could cost you plenty. So join Robert M. Kruger of the Business Software Alliance; an expert on software piracy. **Mar. 10**

8 p.m. EST in the BW Enterprise Chat Room

Thursday

Two students from the London Business School talk about what it's like to study for your MBA there. **Mar. 13 5 p.m. EST in the BW Online Chat Room**

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

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Business Week (ISSN 0007-7135) published weekly, except for one issue in January, by The McGraw-Hill Companies, Inc. Executive, Editor, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$49.95/year; Canada: \$69.95/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08520.

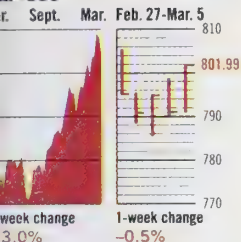
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Investment Figures of the Week

STOCKS

S&P 500

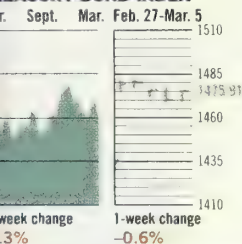


COMMENTARY

...tional" exuberance after
On Mar. 5, Fed Chairman
Greenspan changed his
view, saying stocks aren't over-
valued as long as corporate
earnings meet expectations. He
said he wouldn't raise
rates as a tool to deflate the
soaring market. The remarks
made investors exuberant, and
the Dow jumped 93 points, the
biggest day in three weeks. The
market applauded as
interest rates are still
at their highest they've been since
January. That will make
it tough to break the old high
of 7067.5.

INTEREST RATES

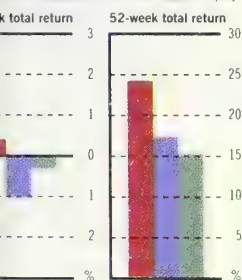
TREASURY BOND INDEX



Bloomberg Financial Markets

MUTUAL FUNDS

S&P 500** U.S. Diversified All Equity



Morningstar, Inc.

are as of market close Wednesday, Mar. 5, 1997, unless otherwise indicated. Industry
include S&P 500 companies only. Fundamentals, technical indicators, Bloomberg mon-

U.S. MARKETS	Latest	% change Week	% change Year
Dow Jones Industrials	6945.9	-0.5	23.1
NASDAQ Combined Composite	1329.1	-0.9	21.2
S&P MidCap 400	265.4	-0.4	15.6
S&P SmallCap 600	146.2	0.2	16.2
S&P SuperComposite 1500	171.8	-0.4	21.3

SECTORS	Latest	% change Week	% change Year
Bloomberg Information Age	243.9	-1.4	20.4
S&P Financials	93.9	-0.3	36.9
S&P Utilities	197.5	0.5	-0.3
PSE Technology	262.7	-0.9	25.9

FOREIGN MARKETS	Latest	% change Week	% change Year
London (FT-SE 100)	4360.1	0.7	15.4
Frankfurt (DAX)	3365.0	3.9	35.7
Tokyo (NIKKEI 225)	18,273.5	-3.8	-9.5
Hong Kong (Hang Seng)	13,410.8	-1.0	17.1
Toronto (TSE 300)	6203.1	0.0	24.2
Mexico City (IPC)	3762.5	-3.3	31.7

FUNDAMENTALS	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.85%	1.79%	2.14%
S&P 500 P/E Ratio (Last 12 mos.)	21.0	21.2	19.0
S&P 500 P/E Ratio (Next 12 mos.)*	16.6	17.2	NA
First Call Earnings Revision*	-1.69%	-0.71%	NA

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day average	708.7	705.5	Positive
Stocks above 200-day average	70.0%	72.0%	Neutral
Options: Put/call ratio	0.63	0.59	Neutral
Insiders: Vickers Sell/buy ratio	1.85	1.79	Positive

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS	Last month%	Last 12 months%
Savings & Loans	19.8	95.8
HMOs	16.5	89.2
Genl. Merchandise Chains	14.7	78.6
Specialty Appr. Retailers	12.5	61.6
Leisure Time	11.1	51.6

WORST-PERFORMING GROUPS	Last month%	Last 12 months%
Engineering & Constr.	-10.1	-24.3
Communications Equip.	-9.3	-20.4
Oil Exploration & Prod.	-8.5	-15.7
Domestic Oil	-5.0	-14.9
Machine Tools	-4.4	-14.3

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness

	Price	1-month change
IBM	144 7/8	-3 7/8
General Electric	101 3/8	-1 5/8
Motorola	57 1/8	-7 1/8
Exxon	100	-2 7/8
MCI Communications	35 1/2	-3/4
Bell Atlantic	67 3/8	-3/8

Decline ahead? Stocks with most significant selling on price strength

	Price	1-month change
Microsoft	99 1/8	3/4
Oracle	39 1/2	7/8
Amgen	61 3/8	3 7/8
Worldcom	25 1/8	1/4
Dell Computer	73 1/16	10 19/16
Staples	22 1/8	2 1/2

KEY RATES	Latest week%	Week ago%	Year ago%
MONEY MARKET FUNDS	4.96	4.95	4.90
90-DAY TREASURY BILLS	5.19	5.22	5.02
6-MONTH BANK CDS	5.01	5.01	4.65
1-YEAR TREASURY BILLS	5.68	5.64	5.07
10-YEAR TREASURY NOTES	6.57	6.56	5.96
30-YEAR TREASURY BONDS	6.83	6.80	6.39
LONG-TERM AA INDUSTRIALS	7.30	7.28	6.96
LONG-TERM BBB INDUSTRIALS	7.64	7.61	7.34
LONG-TERM AA TELEPHONES	7.52	7.48	7.33

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	Last week	30-yr. bond Latest week	Last week
GENERAL OBLIGATIONS	4.87%	4.84%	5.47%	5.44%
PERCENT OF TREASURIES	74.13	74.17	80.14	80.32
TAXABLE EQUIVALENT	7.06	7.01	7.93	7.88
INSURED REVENUE BONDS	4.97	4.91	5.69	5.63
PERCENT OF TREASURIES	75.68	75.24	83.37	83.13
TAXABLE EQUIVALENT	7.20	7.12	8.25	8.16

EQUITY FUNDS

Leaders		Laggards	
Four-week total return	%	Four-week total return	%
Lexington Troika Russia	17.3	Calvert Strat. Growth C	-14.
Lexington Strat. Invnmts.	12.0	PBHG Emerging Growth	-12.
EV Trad. Greater India	11.8	Steadman Technology Gr.	-12.
United Svcs. Gold Shares	10.9	Van Wagoner Emerging Gr.	-11.
Pioneer India A	10.8	Dominion Insight Growth	-11.
Leaders		Laggards	
52-week total return	%	52-week total return	%
Vontobel Eastern Europ. Eq.	69.9	Steadman Technology Gr.	-41.
State St. Res. Glob. Res. A	59.5	United Svcs. Gold Shares	-32.
Interactive Inv. Tech Value	58.4	DFA Japanese Small Co.	-32.
Morgan Stan. Inst. Lat. Am. A	51.0	Fidelity Japan Small Co.	-30.
Morgan Stan. Latin Am. A	49.9	Matthews Korea	-29.

EQUITY FUND CATEGORIES

Leaders		Laggards	
Four-week total return	%	Four-week total return	%
Precious Metals	8.6	Small-cap Growth	-6.0
Latin America	4.4	Technology	-5.1
Financial	3.1	Mid-cap Growth	-3.3
Diversified Emerging Markets	2.2	Natural Resources	-3.2
Europe	1.5	Communications	-2.7
Leaders		Laggards	
52-week total return	%	52-week total return	%
Financial	33.2	Japan	-15.8
Real Estate	33.1	Precious Metals	-6.7
Latin America	32.4	Diversified Pacific	-0.5
Natural Resources	21.6	Communications	4.5
Europe	21.3	Pacific ex-Japan	4.8

flow analysis, and mutual fund returns are as of Mar. 4. For a more detailed explanation, write to us or E-mail figures@businessweek.com NA=Not available **Vanguard Index 500 Fund

DONORGATE AND CORPORATE AMERICA

Is the price for becoming a lead underwriter of political campaigns in America getting too steep for the business community? Does Corporate America really want to finance an increasingly corrupt political process held in growing contempt by the public? These are questions entrepreneurs and CEOs of public corporations should be asking themselves as the campaign fund-raising scandal burns through Washington.

Start with the money. Driven by an ever-growing hunger for campaign dollars for TV, politicians who were once grateful for corporate cash are now demanding, even threatening. It's more like a shakedown than a request. Vice-President Al Gore cold-calls prospective donors from the White House in a no-nonsense request for funds. Who dares say no? GOP party leaders lambaste business political action committees for giving too much to Democrats, even though two-thirds of 1996 PAC contributions went to Republican candidates. Give us 100%, they demand. Or else?

The sums are staggering. Contributions just to Republican party committees, including national as well as those overseeing House and Senate races, came to \$548.7 million last year. Democratic party committees raised \$332.3 million. The entire cost for electing a President, a Vice-President, and 476 members of the Senate and House came to \$2.1 billion. This is a gargantuan amount of money—and business was asked to foot much of the bill. The business community contributed 92% of the \$264 million raised by the Republican and Democratic national committees, according to the Center For Responsive Politics. By some estimates, business PACs, individual corporations, and businesspeople may well have contributed more than \$1 billion in this one campaign season.

Some in Corporate America argue that this is money well spent. There are now two political parties in control in Washington, and business must spend defensively to protect itself against legislation and regulations that could harm it. It is entirely proper for the business community to engage in the political process. But can publicly traded corporations possibly justify such huge campaign contributions? Are they really

buying access or just being played for chumps by politicians promising what they cannot deliver?

It may only be a matter of time before the public begins tar businesspeople who finance campaigns with the same brush it now reserves for politicians. Contempt for political leaders has never been greater. To date, only Asian companies and execs have drawn public opprobrium for what appear to be illegal Presidential campaign contributions. But the seemingly nature of many legal contributions, including those to House and Senate races, will draw attacks as well once they are made known. At that point any number of companies may draw criticism.

The greater danger is that in financing a corrupt political system, CEOs and politicians could begin to corrupt the economy as well. Contracts, not contacts, still define the way most business is done in America, but that could change. Too much business in big cities used to revolve around political ties, not the best price or product. This kind of corruption could happen again at the national level where, say, a company's competitive advantage could be lost by a simple change in regs in favor of a rival that makes a large campaign donation to the right pol. Or a politician, unhappy with one company's contributions, could mete out punishment by changing tax and regulatory policies. What, after all, constitutes "corporate welfare"? These threats are already being made sotto voce. High-tech research, Export-Import Bank loans, and other "subsidies" for companies not willing to pay to play are on the short list of items to be cut in the near future.

A transparent, rule-governed, competitive economy plays to the strengths of American culture. Replacing it with *guan* capitalism or Tammany Hall-style politics would undermine America's competitive edge and damage growth. This is the way to run a nation, much less lead the world, and the American public knows it. Chief executives and entrepreneurs should get behind campaign-finance reform before it taints them as much as the politicians they are underwriting.

TAKING THE POLITICS OUT OF TRADE MISSIONS

Two cheers for Commerce Secretary William M. Daley, who is depoliticizing the process of inviting CEOs on government-sponsored trade missions abroad. Made a top priority by the late Ronald H. Brown, they have rung up billions of dollars in U.S. exports, from telecommunications gear to aircraft parts to construction services. But too many of the CEOs invited to join Brown wound up becoming large Democratic donors. So Daley has decreed that selection of industry reps for the most sought-after trips will be done by career Commerce employees in an open, competitive process.

From now on, all the criteria for becoming a candidate for

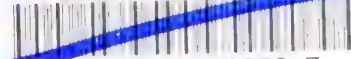
a trip will be published in the *Federal Register* and put on the Internet. Smaller businesses or those without Washington contacts that were left out of the mysterious selection process in the past will have all the information they need.

In announcing the changes, Daley noted that foreign rivals have remained active. German Chancellor Helmut Kohl just took German business execs to Asia. Prime Minister Jean Chrétien led a group of Canadian business officials to India and signed some \$2.5 billion in contracts. In an era of global capitalism, the U.S. needs a "commercial diplomacy," but it needs a nonpartisan one open to every qualified company.

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March 24

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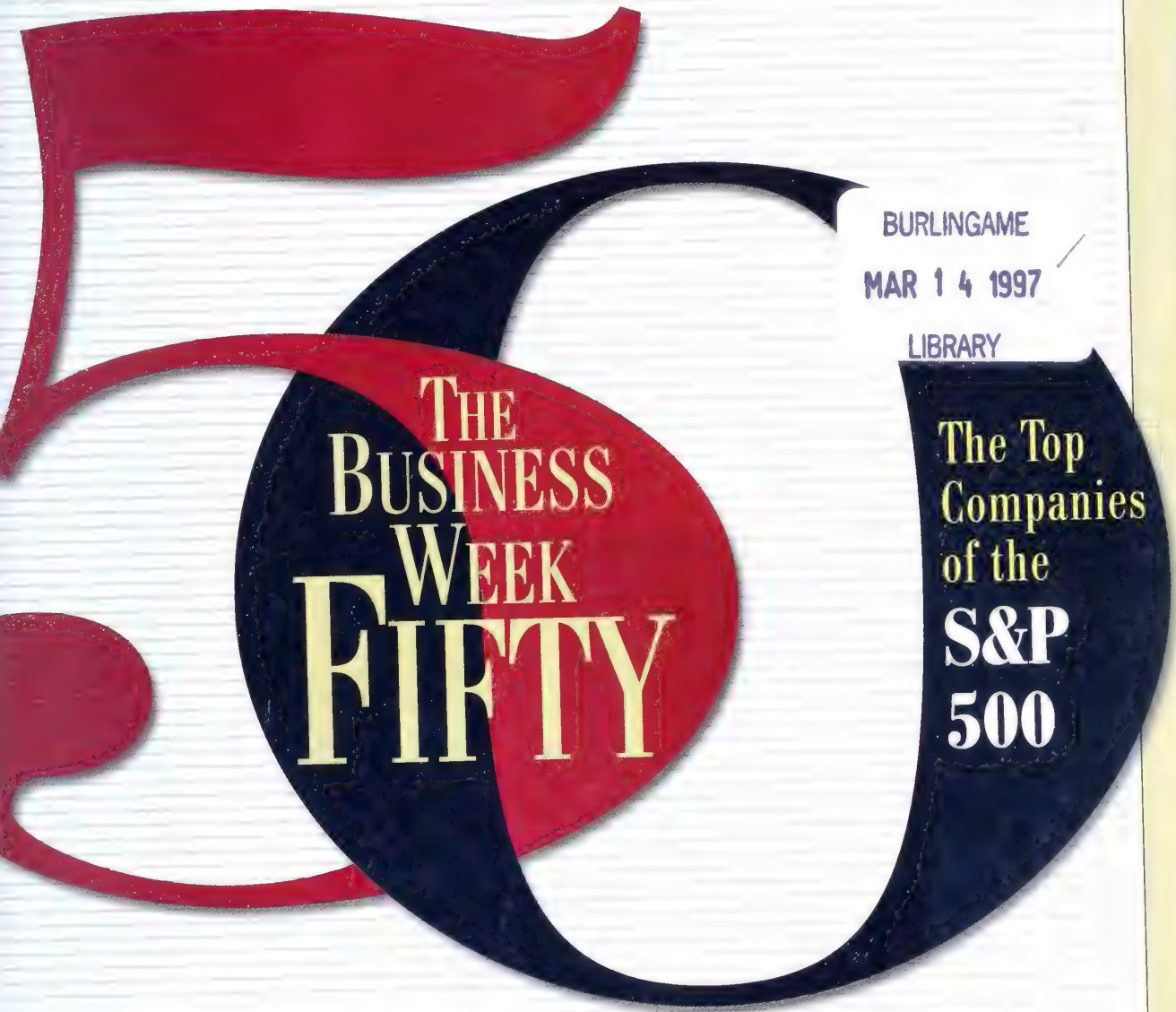
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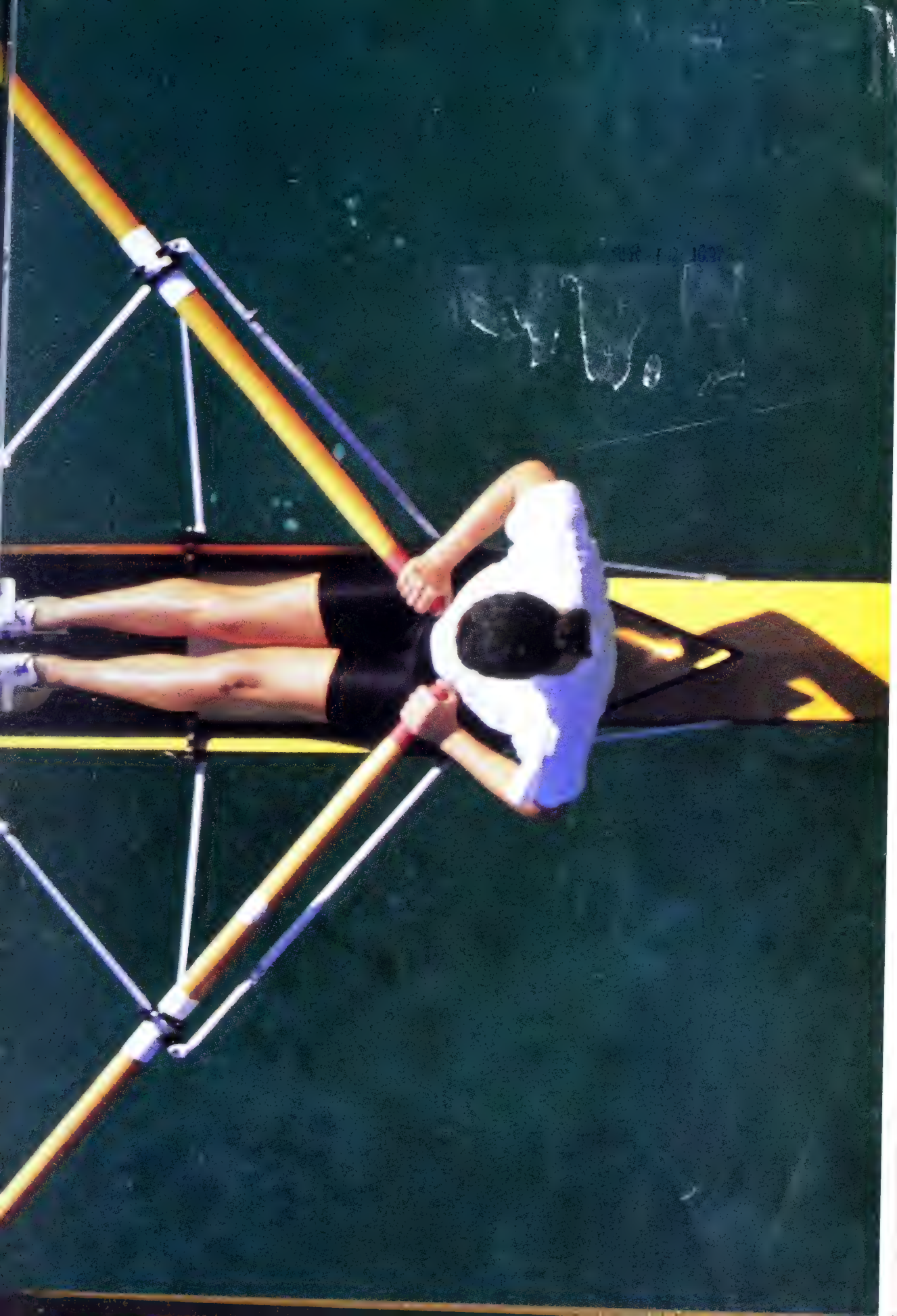
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BusinessWeek

MARCH 24, 1997

COVER STORY

CORPORATE ELITE

Our all-new honor roll, culled from the S&P 500, delivers a fresh way of gauging performance—and some surprises

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The Business Week Fifty

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How labor made the GOP blink



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The board is getting impatient with Dearborn's plodding progress **page 66**



HIGH TENSION
The flurry of angry exchanges between GE's Jack Welch and the unions **page 178**



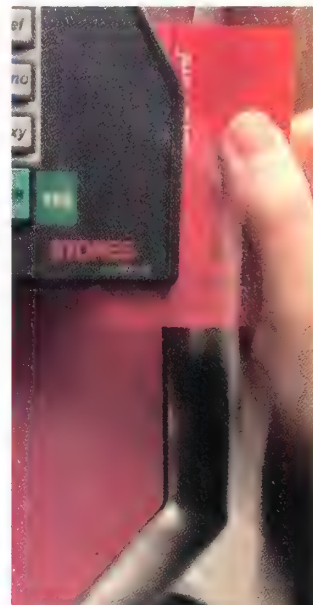
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Foreign cash boosts Russia's stocks **page 48**



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The Mob leaves few tracks on Wall Street **page 186**



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How doctors are banding together **page 204**



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At least high-end consumers are still spending **page 30**

WHISPERING IN BILL'S RIGHT EAR

George W. Bush is now the most powerful voice on domestic-policy issues

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The company is plowing into cable, even as rivals scale back

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Up Front

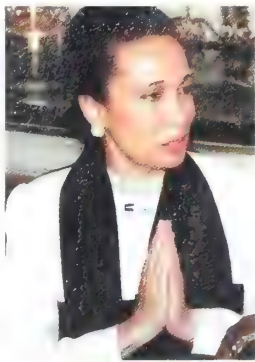
EDITED BY LARRY LIGHT

BILL'S BUNCH

HERMAN'S BAGGAGE GROWS HEAVIER

THE NOMINATION OF ALEXIS Herman as Labor Secretary, due for a Mar. 18 Senate hearing, is hitting even heavier weather and may be delayed. Some senators want to scrutinize two overseas trade missions for women business owners that Herman led in 1995 and 1996 for the late Commerce Secretary Ronald Brown. One ex-Commerce official says it was "definitely strange" to tap Herman, a White House aide, to lead the trips—but felt her close tie to Brown was the reason.

The senators are particularly interested in one plane guest on a trip to Mexico: Caryliss Weaver, vice-president of Alignment Strategies,



TOUR GUIDE to Mexico

a Potomac (Md.) consulting firm that bought Herman's diversity consultancy, A.M. Herman & Associates, two years earlier for between \$50,000 and \$100,000. Weaver and her sister, Vanessa, Alignment's owner and president, gave \$50,000 to the Democratic National Committee in November. Neither sister would comment. A White House spokesman says although Herman suggested Alignment be invited, "it's ridiculous to assert that was some kind of pay-off for buying her business."

Also under scrutiny: meetings her White House office hosted for policymakers, on government time, with women's groups and other special interests. Senators suspect the events were really political—and thus illegal. Clintonites say they weren't. *Paula Dwyer*

TALK SHOW "There'll be an argument over what will be legal and what will be illegal."—*Senator Arlen Specter (R-Pa.), on why the scope of campaign-finance hearings should be expanded, which it was*

RANK AND FILE

THESE ARE YOUR CAPTAINS SPEAKING

FIRST, THERE WERE PILOTS Defending the Profession, a hard-line group of American Airlines pilots that helped defeat a tentative contract in January. Now, a counterinsurgency of sorts, dubbed Voice of Reason (VOR), is pressing its own campaign, with hopes of avoiding a crippling strike Apr. 17.

VOR is asking the company's 9,300 pilots to sign a petition calling for a rank-and-file vote on the compromise recommendations of a Presidential Emergency Board—even if, as expected, the Allied Pilots Assn.'s leadership balks at the deal. The board, due to issue its report by Mar. 17, was formed by President Clinton on Feb. 15, halting a brief pilots' strike for at least 60 days. Management is likely to back the board's proposals, and the VOR thinks the union's rank-and-file would, too. The two sides have agreed to mediate the dispute, with the panel's assistance.

Union leaders say they

have no plans to poll members. Detractors fear that VOR's efforts will undercut the union's position. But the new group, says pilot Carmen Villani, an organizer, working within the union



AMERICAN PILOTS: A schism

help "the leadership know exactly where the membership stands." On one key issue the group believes most members will accept letting lower-paid, non-APA pilots fly commuter jets, with some restrictions. *Wendy Zellne*

CASINO SOCIETY

MARVIN DAVIS, PIT BOSS

BILLIONAIRE Marvin Davis wants to get into the gambling biz by expanding a small Indian casino in downtown Milwaukee, increasing the 200 permitted slot machines tenfold. But he's running into heavy opposition from local officials; Mayor John Norquist says gambling "sucks money out of poor people." Governor Tommy Thompson, who will rule on the Davis plan, is mum.

The Potawatomi tribe says that his plan would quadruple the casino's 450 jobs, helping the local economy. The crowded casino, the lone one in the Milwaukee area, is at least 120 miles away from other tribal casinos. The financier would lend the Potawatomis \$75 million to enlarge the place in return for 25% of its net revenue (that's after operating costs). Last year, the house made \$62 million. Davis is moving gingerly into gambling, which suffers from overcapacity. He has permits to enter the Atlantic City and Las Vegas markets, yet hasn't. Now, he is seeking a riverboat gaming license in Boonville, Mo. *Cary Spivak*

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ONEY MAN

THE LIST FAME AND FORTUNE

Rocker David Bowie has floated a \$55 million, 10-year bond issue at 7.9%, backed by music royalties. So Dorsey & Whitney, a Minneapolis law firm specializing in asset-backed securities, commissioned a poll on which celebrity would be the best investment. Their query listed relatively young names, with decades



of earning power ahead. In deeming Oprah Winfrey No. 1, the public shows it doesn't expect to tire of the talk-show queen.

WHICH ONE CELEBRITY WOULD YOU INVEST IN?

OPRAH WINFREY	27 %
STEVEN SPIELBERG	19
TIGER WOODS	15
MICHAEL JORDAN	14
TOM CRUISE	8
ROSIE O'DONNELL	5
JERRY SEINFELD	4
MADONNA	2

National survey of 1,000 Americans. Remaining 6% didn't know or declined to answer.

DATA: DORSEY & WHITNEY LLP



transistor, Bell Labs '47



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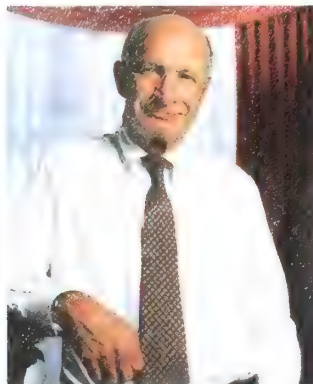
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JENRETTE: Aries author

RICHARD JENRETTE, WHO saved Equitable Life from collapse, is about to reveal the secrets of his success, including the use of astrology. After retiring as the insurer's chairman last year, he wrote a book, *Jenrette: The Contrarian Manager*. It's due out in July from The McGraw-Hill Companies (publisher of BUSINESS WEEK), on whose board he sits.

Jenrette, 67, also a founder of securities firm Donaldson

Lufkin & Jenrette, tells how unconventional thinking averted Equitable's demise. Jenrette in the early 1990s took the giant mutual insurer public so it could raise needed capital. Although smaller insurers had made such a shift, the regulatory hurdles were daunting for a company Equitable's size. "Many doubted it could happen," says Jenrette.

Other unorthodox approaches Jenrette took were using the zodiac and handwriting analysis "to better understand people." An Aries (decisive, candid), he noted with alarm when he came to Equitable in the late 1980s that its board and upper management were dominated by Virgos, who would rather bicker than pull together. Later, through attrition, the upper echelons became more diverse, astrologically speaking. He cautions that astrology is only a guide and has its limits. "Take all this with a grain of salt," writes Jenrette. □

SPORTS BIZ

AN EMPTY CUP FOR BUDWEISER?

THE FRENCH SELL BEER, wine, and even hard liquor in their supermarkets and don't



FRANCE: No booze billboards

have a rigidly enforced drinking age. But Anheuser-Busch has managed to find itself embroiled in a bitter battle with the French government over Budweiser ads. The

world's No. 1 brewer, an official sponsor of the 1998 World Cup, wants its logo splashed over stadiums in host country France and visible during broadcasts reaching millions of soccer fans.

But French law is touchy about mixing sport and suds. Almost all beer sales are banned at French soccer matches to avoid fueling hooliganism, and the government has stopped the televising of sports events in stadiums with liquor advertising. So St. Louis-based Anheuser-Busch is lobbying the European Commission in Brussels. Some EC officials say the French are barring free competition. The dispute could end up before the European Court of Justice. William Echikson

DRAWN & QUARTERED



CULTURAL DIVIDE

WHY JOHNNY CAN'T BE BOTHERED

COMPARED WITH CHILDREN overseas, American kids save less money but are more eager to get rich, mirroring their parents. According to a new survey, U.S. youngsters' savings rate is about one-third that of Japanese children, for instance. But 80% of young Americans daydream about getting rich, vs. 64% in Japan. American kids daydream less about being smart



U.S.: Dream on

than about being wealthy or good-looking. The survey was of 2,400 children aged 7 to 12 in the U.S., Japan, France, Germany, Britain, and China, done by

Just Kid Inc., a Stamford (Conn.) marketing firm.

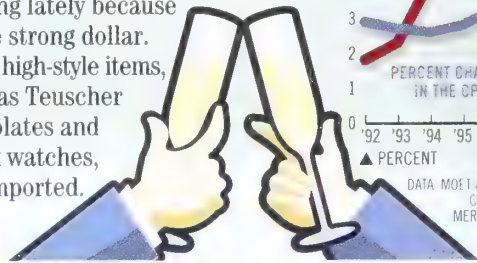
Why the differences? Commenting on the study, Yale University psychologist Jerome Singer cites daydream influences. U.S. youngsters watch more adult TV shows because there has been less children's programming in recent years. The result, says Singer, they see more about looking wealthy.

Plus, says Mihaly Csikszentmihalyi, University of Chicago psychologist, American kids don't necessarily equal schooling with getting ahead. Especially since the more fluid U.S. culture has produced such role models as "Bill Gates, college dropout who has made billions." Susan Jackso

THE BIG PICTURE

HOW MUCH FOR THAT DOM PERIGNON?

Price increases in luxury goods and services have outpaced overall inflation in the perky mid-1990s economy. But luxury inflation is slowing lately because of the strong dollar. Many high-style items, such as Teuscher chocolates and Rolex watches, are imported.



FOOTNOTES Of 1,005 adults polled, portion who say they smoke cigarettes: 1997, 26%; 1990, 26%

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At first glance, DVD might appear to be a cutting-edge entertainment technology – bringing movies and interactive educational programs home in a way never before possible. But take a glimpse into the future and what you'll see is that DVD is much more. It will be a business partner that puts millions of facts at your fingertips. A legal assistant that can search through hundreds of law books in seconds. Or a teaching tool that can give students individualized remedial lessons. DVD discs are the size and shape of CD-ROMs, but far more powerful. With a massive capacity of up to 17 gigabytes and a data transfer rate of nearly 10 megabits per second, DVD players, DVD ROM and DVD RAM will be the essential tools of the information age.

And Panasonic, through its parent company, Matsushita Electric, has created technologies that give DVD its power. The most powerful DVD disc will be dual-sided and dual-layered. This technique takes the original DVD concept, with an already impressive 4.7 gigabytes, and potentially expands it to 17. All this is possible thanks to the ultra-precise UV disc bonding technology and dual-focus Holographic lens created by Matsushita.

Panasonic has been involved with DVD technology every step of the way. Even before it was called DVD. Today, Panasonic has U.S. facilities to help businesses with digital video and audio compression, DVD program authoring, mastering, even disc manufacturing. So, no one is better prepared to help companies enter the DVD age.

DVD technology will change the movie, music, publishing, and computer industries, simultaneously. It will help business, research and education solve complex problems. Or simply let people enjoy feature films with extraordinary CD-quality sound, a choice of 8 different language sound tracks and 32 subtitles. The possibilities are endless. And that's just the beginning.

Panasonic

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RALLYING ROUND REDSTONE

I didn't recognize the Sumner M. Redstone you wrote about in "Sumner's Last Stand" (Cover Story, Mar. 3). One line sounded right: "With his tirelessness, his passionate enthusiasm, and his laser-beam intellect, Redstone has long been Viacom Inc.'s greatest asset." Unfortunately, the rest of the story was a mean-spirited and muddled profile of Viacom and the man whose singular and bold vision created one of the leading international me-



THAT'S NOT SUMNER

"I didn't recognize the Sumner Redstone you wrote about... Stick to the facts, and leave creative scriptwriting to others"

dia companies and began the wave of consolidations that have transformed the media industry.

Contrary to BUSINESS WEEK's conclusion, Viacom's foundation is solid, and Sumner's strategy is fully understood and aggressively pursued throughout the organization. My advice: Stick to the facts, and leave the creative scriptwriting to others.

Aaron Spelling
Chairman and CEO
Spelling Television Inc.
Los Angeles

Editor's note: Spelling Television is a subsidiary of Spelling Entertainment Group, 78% of which is owned by Viacom.

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As a member of Viacom's board, I was shocked by BUSINESS WEEK's superficial analysis of Viacom and the unfair portrayal of its chairman and CEO. Sumner Redstone's leadership qualities—his outstanding intellect, his driving passion, and, above all, his vision—are well known and need no defense from me.

No company in the media industry has been more active than Viacom in shaping itself to capitalize on the burgeoning entertainment and publishing markets. Indeed, as you point out, other companies are engaged in a "frantic bid to focus"—but Viacom is already there. In the last 12 months alone, Viacom has spun off its cable systems, announced plans to sell its radio stations for more than \$1 billion, and signed long-term output deals in Europe for its television programming and cable networks.

In addition, the company has launched cable and satellite-TV networks in the U.S. and abroad, entered the broadcast-network business with UPN, reenergized Paramount Pictures, outperformed the publishing industry at Simon & Schuster, and refocused Spelling Entertainment on its core television programming business. As for Blockbuster, Viacom has taken bold steps to strengthen its core video business for the future.

I cannot emphasize enough my dismay at the way you maligned a man whom I have known in many capacities—including his role as a teacher at Boston University Law School during the period when I was dean. In organizing and developing a pathfinding course in entertainment law, he displayed his exceptional talent for creative vision—a trait he has consistently drawn upon in his Herculean development of Viacom's strategic plan for the future.

William Schwartz
New York

THE ETHANOL PROGRAM ISN'T CORPORATE WELFARE

By including the ethanol tax incentive on its corporate-welfare hit list ("The end of corporate welfare as we know it?" News: Analysis & Commentary, Feb. 10), BUSINESS WEEK is spreading untruths about the federal ethanol program.

The ethanol tax incentive is not an appropriate example of corporate welfare. First of all, the ethanol tax incentive is not claimed by major ethanol-producing companies. Rather, it is claimed by thousands of gasoline mar-

CORRECTIONS & CLARIFICATIONS

On Apr. 1, Frederick Reid will become the first American to head Lufthansa, not the first American to head a non-U.S. airline ("Rivals are buzzing all around Lufthansa," International Business, Mar. 3).

The correct phone number for Starfish Software, the maker of Sidekick 97, is 408 461-5800 ("Still more sophisticated," Technology & You, Mar. 10).

Bethlehem Steel Corp. is not ceding its rail business to minimills, as was erroneously reported in the Industry Outlook issue ("Metals," Jan. 13).

keters—by corner gas stations, not by corporate execs.

The reduced tax collected because of the partial excise tax incentive for ethanol blends amounts to less than \$500 million annually, not \$845 million as quoted in the article. Moreover, a recent study found that the increased farm income and tax revenues attributable to ethanol production offset the "cost" of the ethanol tax incentive, and actually result in a net savings to the federal government of more than \$500 million annually.

The ethanol program saves taxpayer money. It also assures competition in fuel markets, stimulates economic growth in rural America, reduces our dependence on imported oil, and saves the government money. That's not corporate welfare, that's a sound investment in America's future.

Eric Vaughn
President
Renewable Fuels Assn.
Washington

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THE COMING CONFLICT WITH CHINA
By Richard Bernstein and Ross H. Munro
Knopf • 245pp • \$23

IS CHINA THE NEW EVIL EMPIRE?

You could say that China's propaganda machine had it coming. At Communist Party conferences, in military publications, and through *People's Daily* editorials, the Chinese have, over the past five years, built up the U.S. as a rising hegemonic power out to "contain" China's economic and political emergence. The theme has hit popular Chinese culture in the form of such hot-selling books as *Behind the Demonization of China*, which claims the U.S. media are conspiring with Washington to weaken China.

Now, there's a return salvo from the West: *The Coming Conflict with China*. Drawing from statements by Chinese leaders and media, Richard Bernstein and Ross H. Munro, former China correspondents for *Time* and Toronto's *Globe and Mail*, respectively, argue that China, not paranoid Americans, is putting the two powers on course for a military collision. China's goal, say the authors, is "to become the paramount power in Asia and to supplant the United States in that role."

But that, and the rest of the argument for regarding China as a threat—an idea roundly dismissed by many—falls into place. China's growing foreign reserves, ballooning trade surplus with the U.S., drive to pry technology from multinationals, and acquisition of modern weapons are part of its scheme to become the region's unchallenged superpower, Bernstein and Munro believe. But what of its top leaders' repeated assurances that China "will never seek hegemony"? That's just an age-old Chinese tactic for disarming a foe. Why has Beijing so enthusiastically feted U.S. CEOs and awarded them megadeals? It's a ploy to get Corporate America to neutralize U.S. opposition to China's political repression and at the same time secure advanced technology.

There is much in this book that will trouble people who have spent time on

the mainland. Written in a sometimes jingoistic tone, it often comes across as an anti-China screed. It does little to place the military buildup and industrial strategies in the context of such problems as vast and growing unemployment, uneven distribution of wealth, and the dilapidated state of industry. And sinologists already are picking apart the authors' calculation that China's 1996 military spending was up to 10 times the official \$8.7 billion.

Even if Beijing's elderly hardliners do harbor aggressive intentions, moreover, one must wonder whether they can realize their aims. Beijing bureaucrats may indeed dream of becoming global powers in autos, electronics, aircraft, and telecom equipment. But step inside any Chinese factory not run by a multinational, and it's hard to envision China becoming home to the next Toyota or Fujitsu anytime soon. And there's no reason to assume that, by the time China's military and industry reach world standards, the leaders then in power will share the same goals as today's gerontocracy.

Still, it would be wrong to dismiss *The Coming Conflict* as mere China-bashing. Munro and Bernstein didn't set out to write a survey of modern China but to deliver a wake-up call to Pollyanna-ish policymakers and executives. Nor is the book's central point farfetched: that China's "goal is to dominate Asia, not by invading neighboring nations" but by being so powerful that nothing happens in East Asia "without at least China's tacit consent." Unless the U.S. intervenes, China does not need state-of-the-art weaponry to intimidate its neighbors. By manipulating access to its market and mounting enough of a threat to vital sea lanes, airspace, and ports, it

can bring Taiwan, Japan, and much of Southeast Asia to heel.

When it comes to U.S. policy prescriptions, moreover, *The Coming Conflict's* bark is worse than its bite. The authors argue neither for economic sanctions to punish human-rights abuses nor for curtailing constructive engagement. The sharpest departure from orthodox is a call for managed trade to whittle down the \$39.5 billion trade deficit which they argue is helping finance China's military buildup. Otherwise, they want an escalation of present strategies: pressing human-rights complaints in international forums and bolstering regional-security arrangements to preserve the balance of power. That means continuing to help Taiwan defend itself, maintaining U.S. bases wherever possible, and urging Japan and Asian allies to assume a greater defense burden.

But the book leaves the follow-up question unanswered: How much longer can—or should—the U.S. remain the

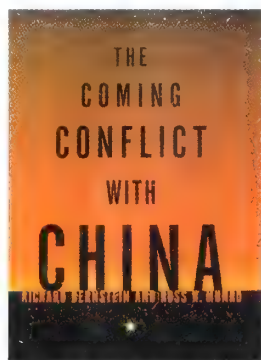
sole guarantor of Asia's balance of power? No Asian country seems willing to get involved in its neighbors' problems if the opponent is China. Indeed, Japan, South Korea, Singapore, Indonesia, and Malaysia all have a much greater stake in Asian stability than does the U.S. And they have the wherewithal to protect that stake if they band together. Yet

they are either too fearful of irritating China to establish any regional security alliance or they simply don't believe China is a threat. Why shouldn't the U.S. tell Asia's Tiger economies: Share the costs and political risk of keeping the region stable, or don't expect American help if China tries to grab your oil fields.

If, as the book suggests, China can maneuver these countries into subservience without firing a shot, it will be Asia's 21st century power broker whether the U.S. likes it or not. If the rest of Asia has decided it can live with that, then the real challenge for the U.S. is to learn to coexist.

BY PETE ENGARDIO

Engardio, based in Hong Kong from 1990-96, co-wrote the Mar. 4, 1996, *Cover Story*, "Rethinking China."



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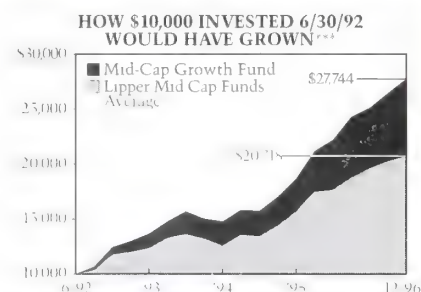
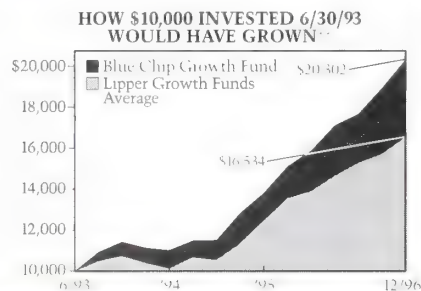
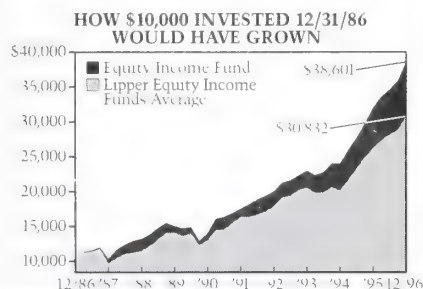
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STEPHEN H. WILDSTROM

SERVICE WITH A CLICK

Web technology goes in on your tastes to personalize online shopping

Buy a lot of things from catalogs, but very little from the World Wide Web. While shopping the Web is convenient, few retailers' sites match the breadth of their print catalogs. There are no order-takers to tell you if an item is in stock or to suggest alternatives if it isn't. In short,

the Web is a less satisfying buying experience than a paper catalog and a toll-free call. This may be about to change, thanks to technology recently escaped from the Massachusetts Institute of Technology Media Lab and other computer-science labs. Still known by the geeky name "collaborative filtering," the idea is simple.

By gathering and pooling data volunteered by customers, a computer can determine what products or services people may like. Making this technology work is a challenge, but it has the potential to revolutionize online commerce.

MOVIE THESAURUS. Reel (www.reel.com) is a good place to see the process in action. This site, which doesn't do anything yet but is in the process of becoming an online video store, uses a couple of different ways to help you find movies you'll like. The Reel Genius asks you to se-

lect a film genre, then offers a list of movies of that type. You assign a rating from 1 to 10 for each movie you have seen. The system combines your ratings with the votes of others with seemingly similar tastes—that's the "collaborative" part—to compile a list of suggested films. As you rate the movies the site suggests, the more closely it reflects your tastes. I found that after a while, Reel did a pretty good job of anticipating my interests,



except for its insistence that I would like *Pulp Fiction*.

Reel's Movie Thesaurus allows you to pick a film that you liked, and it will suggest other films you might also find enjoyable. For example, entering *Sense and Sensibility* returned the obvious suggestions of *Howards End*, *A Room with a View*, *Emma*, and *Persuasion*. It also offered an offbeat suggestion, *Where Angels Fear to Tread*.

Books pose a much greater challenge for filtering than movies. That's partly because

there are so many more titles, partly because you only have authors, not actors, directors, producers, and screenwriters, to serve as points of comparison. But Amazon.com, the big Web bookstore (www.amazon.com) is trying. Using a technology called GroupLens, developed at MIT and the University of Minnesota and commercialized by startup Net Perceptions, Amazon is developing a system similar to Reel's for rating and suggesting books. An experimental version I tried was a bit flaky—it kept suggesting Danielle Steele novels. The developers say there's currently little preference information in the database, but it should improve greatly before the system goes public later this spring.

To make this guided shopping work, Web sites have to collect a great deal of personal information, which marketers would pay dearly for. This naturally raises concerns about privacy that Web merchants have had to address. For example, FireFly Network, (www.firefly.com) a Media Lab spin-off that uses filtering to recommend entertainment and to create online communities of like-minded people, has a formal privacy policy that promises not to turn personal information over to third parties without the express consent of the individual.

That's probably a necessary step to win consumer confidence in Web commerce based on guided shopping. Analysis that more quickly homes in on consumers' tastes is also needed. I doubt that collaborative filtering will ever equal the instincts of a good Nordstrom salesperson. But as the technology moves out of its infancy, online shopping could challenge those trips to the mall.

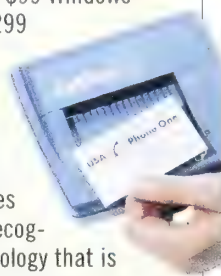
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If you are looking for a tool to ease the tedium of getting information from business cards into your computer, the newest version of Card-Scan from Corex Technologies (617 492-4200) may be the answer. The \$99 Windows program, \$299

with a card scanner that plugs into your printer port, features character-recognition technology that is much improved over previous versions. It still requires some manual correction of scanning errors, especially on cards that have complicated designs. But I found scanning much faster than manual entry. The data collected by CardScan can be transferred to most popular software programs for managing contacts.



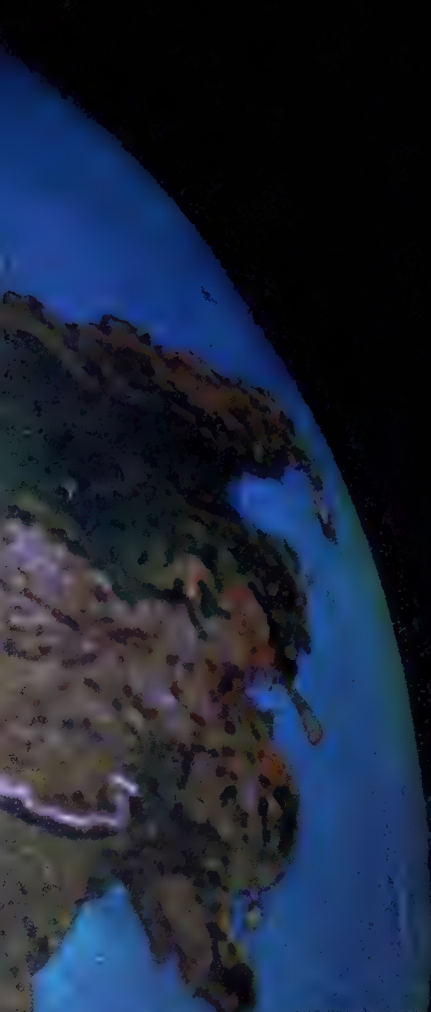
GRAPHICS

SUITE FOR SORE EYES

Graphics Suite 2 from Micrografix (800 371-7783) offers an impressive suite of Windows graphics applications at a bargain price—\$150 for owners of just about any graphics program, or Microsoft Office 95 or 97. The package includes the new versions of Picture Publisher image editor, Designer technical drawing program, Flow-Charter for creating diagrams and charts, and the new Simply 3D for three-dimensional modeling and rendering. Other components of the program include an image-file manager, clip art, fonts, and tools for publishing graphics on the World Wide Web.



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BY RUDI DORNBUSCH

WHAT THOSE FRENCH BLOKES CAN LEARN FROM THE BRITISH



CLUELESS:
While Britain depreciated the pound, cut interest rates, and spurred growth, France kept deflating, only to see jobs vanish

This is not a good time for France. Unemployment is high and rising, and confidence has hit rock bottom. Policymakers are lost—and have been for the past decade. For lack of a better idea, they have simply mimicked German hard-money policies, cut spending, and deflated the economy. This has not done much for prosperity. True, France is not alone: All of Europe bears the imprint of the Bundesbank's boots.

France took a look across the Atlantic to see how the U.S. has successfully parlayed free-market capitalism into enormous job growth and prosperity. But it feels more comfortable dismissing America as a country that creates only low-paying, dead-end "McJobs."

But what about that other Anglo-Saxon country right across the channel? Over the past 15 years, Britain has accomplished miracles. Where once was a stagnant, socialistic economy with sporadic growth, high inflation, and suppressed individual drive, there is now a dynamic economy. Competition in the marketplace and pragmatism at the Bank of England have put Britain ahead of the pack. If French policymakers had to contrast their performance with Britain's, there would be nothing but embarrassed silence.

KUDOS. Margaret Thatcher gets the credit for the drastic change in British culture. Her ability to ride roughshod over the unions, bureaucrats, and her own ministers alike lies at the core of the British revival. Making money is O.K. again.

Monetary policy has been pro-growth in Britain. Inflation must be low, but not so low that it stifles spending and employment. Rather than simply copying the obsessiveness of the Bundesbank, the Bank of England has adopted a more flexible, inflation-targeting approach and has given the economy room to grow.

In 1992, Britain and France came to a crossroads. The issue: Whether to stay in the European Monetary System of fixed currency rates at any price or to throw in the towel, let the currency float, cut interest rates, and sail for prosperity. At the time, both countries had high interest rates and fragile currencies. Britain depreciated the pound, cut rates, and stimulated growth. The rest is history. France, by contrast, kept deflating. There has been some success. France's interest rates are currently at German levels,

but only at the sacrifice of economic growth.

Has Britain paid for escaping from the Bundesbank? Over the past five years Britain's growth averaged 2.9% per year (better than in the U.S.), compared with only 1.4% for France. Over that period, unemployment in Britain has fallen from 10% to 6.7%, while the French rate has risen from 9% to more than 12%. In France, unemployment benefits are a generous way of life. In Britain, they are called a "job-seekers allowance" and only last six months. True, Britain has an inflation rate of 2.5%, vs. only 1.7% in France, but so what? At these levels it doesn't matter very much.

DEAR RUBIN. The Labor Party is sure to win the coming election. Although that prospect in years past would have upset markets, this time around the new Labor leadership isn't frightening anyone. It looks, in fact, modern and market-friendly—although time will tell for sure. On the fiscal front, there is plenty of room for spending. Britain, unlike every other industrial country, does not have a looming social security crisis (another of Thatcher's extraordinary legacies). Yet Labor should show restraint. A tight budget is the best way to enhance capital formation and growth. Here, U.S. Treasury Secretary Robert E. Rubin, dear to the new Labor leaders, should be the role model.

Labor should bolster programs for building skills. But the inclination for overmanaging the program must be resisted, and vouchers, not government work corps, should be the instrument. The Bank of England, for its part, has been doing just fine, but giving it full independence would help Labor gain the market's confidence. Last, Britain should become a strong voice for postponing the creation of a single European currency. It is far more important for European economies to take more time for essential structural reforms than to create a common money. Flexible labor markets are the key to Europe's future competitive success, not the EMU.

If the expected new British Labor government follows this agenda—if there is a Clintonite Labor Prime Minister—the Thatcher revolution will continue. In France, there is no such hope. The right in France does not like the market, and the left does not understand it. France has lost a decade already and is not even at the starting gate.

Rudi Dornbusch is professor of economics and management at Massachusetts Institute of Technology



"If you want to grow old as a pilot, you've got to know when to push it, and when to back off." *Chuck Yeager*

At 21, only three years after first boarding a biplane, Chuck Yeager was leading a squadron of fighter pilots in World War II. And at the age of 24, he became the first person to fly faster than the speed of sound.

Yeager remains a man on the move. He's an avid sportsman and a consulting test pilot who still loves to fly. "Maybe I don't jump off 10-foot fences anymore," says Yeager,

"but I can still pull 8 or 9 G's in a high-performance aircraft." And in all his exploits, Yeager depends on a rugged and reliable timepiece. "I wore a Rolex more than 40 years ago when I broke the sound barrier and I still do today," says Yeager matter-of-factly.

"A pilot has to believe in his equipment. That's why I wear a Rolex."



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BY GENE KORETZ

DON'T PANIC OVER SOCIAL SECURITY

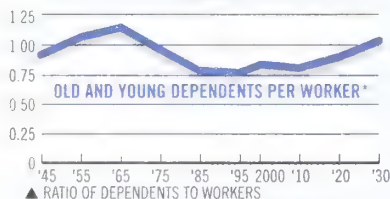
This crisis may be overblown

Popular wisdom says the Social Security system's looming financial problems need fixing now or they will impose a crushing burden on future workers and the economy itself. But a number of experts think it's too soon to press the panic button.

For one thing, the Social Security Administration's projections of future immigration and population gains and economic growth may be far too conservative (BW—Feb. 10). More important, even if current projections prove accurate, many economists believe that the future strain on workers and the economy has been exaggerated. What counts, contends Judith Mackey of Mackey-Baker Associates, is "the overall burden that workers will carry in supporting nonworkers—and that includes children as well as the elderly."

Mackey's focus is the so-called total

THE BURDEN FACING AMERICA'S WORKERS



*ASSUMES THAT 75% OF WORKING-AGE POPULATION WILL BE EMPLOYED IN THE FUTURE. DEPENDENTS INCLUDE THOSE OVER 64 AND UNDER 16 YEARS OF AGE (UNDER 18 FOR 2000 AND LATER).

DATA: MACKEY-BAKER ASSOCIATES

dependency ratio—the size of the non-working population under 16 and over 64—relative to the size of the working population. She calculates that this ratio, or the total number of dependents per worker, will rise only moderately in coming decades (chart).

To be sure, the makeup of the dependent population has been changing. In 1995, 35% of this group was over 64 (up from 28% in 1975). And by 2030, when all the baby boomers will be old, the elderly's share will be 45%.

But while the common view is that per capita spending on the elderly vastly exceeds spending on the young, that seems to be true only in terms of government outlays. Families actually spend a bundle on their children—some

\$145,000 per child through age 18, according to Agriculture Dept. estimates—and naturally that doesn't include college costs. Weighing both public and private expenditures for children and the elderly, economist James Schulz of Brandeis University discounts the likelihood of a dramatic increase in the total dependency burden in the future.

Thus, the real question facing the nation in the next century may be how to use the private savings accruing from fewer younger dependents to cover the public costs of a larger group of older dependents. Although reform of Social Security and Medicare must be part of the answer, this way of looking at the issue suggests that the current cry for immediate action needs to be replaced by careful, reasoned debate.

RAKING IN THE REFUNDS

Taxpayers reap a February bonanza

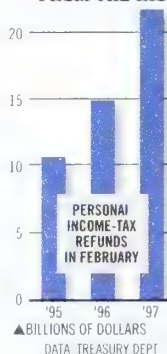
A year ago, a hefty surge in refunds put some welcome cash in consumers' pockets. This year, it seems to be happening again—and then some.

As William V. Sullivan Jr. of Dean Witter Reynolds Inc. observes, the big season for individual refunds from the Internal Revenue Service starts in February and ends in May, with payments by check or electronic transfer going out weekly on Fridays. But whereas last year the February tally ran some \$4 billion over 1995's total, this year it is up almost 50%, or some \$6.8 billion.

One reason for the surge may be simply that the IRS is processing more refunds earlier because of a much larger number of early electronic filings. Since total refunds during last year's season ended up only 6.7% higher than in 1995 after starting out with a 40% increase in February, the current pickup could well lose steam in the weeks and months ahead.

"Still," says Sullivan, "the fact that consumers are already holding an extra \$7 billion or so in discretionary spending power may help explain why consumption has come in so strong early in the year."

A LITTLE HELP FROM THE IRS



DATA: TREASURY DEPT.

DOES THE DOLE DETER CRIME?

Welfare cuts may mean more thef

As welfare programs have been cut back in recent years—by means of tougher eligibility rules and lower benefits—U.S. crime rates have also fallen. It would be nice to believe that the two trends are somehow related. But the results of a study appearing in the current issue of *Economic Inquiry* suggest otherwise.

In the study, economist Junsen Zhang of the Chinese University of Hong Kong analyzed crime rates and welfare programs in all 50 U.S. states in 1988. Zhang found that, other things being equal, property-crime rates were lower in states with relatively high welfare benefits and larger pools of recipients relative to their populations. Programs such as public housing, which benefited both men and women, Zhang reported, appeared to have the strongest inhibiting impact on crime—a finding in keeping with the fact that most property criminals are men. Welfare appeared to have no effect on violent crimes.

Such findings suggest that the radical surgery being performed on welfare could well result in more crime—unless former welfare recipients are able to find decent-paying work.

STARTUPS: STILL A JOB ENGINE

Last year's hiring was up nicely

Entrepreneurship is alive and well in the U.S. economy. According to Dun & Bradstreet Corp.'s commercial credit database, Americans started 170,475 new businesses last year. While that's up only 1% or so over 1995, the big news is that those businesses were appreciably larger and created 846,972 new jobs—a healthy 15% more than the year-earlier tally.

The hottest region in the country last year was the Mountain States, where a 10% rise in business starts produced a 32% increase in associated jobs. Employment growth generated by startups in the services and in construction industries was particularly strong, averaging 20%. While starts were up only 1.8% in California and fell 3.4% in New York, the number of jobs created by new businesses in those states surged by 24% and 30%, respectively.

JAMES C. COOPER & KATHLEEN MADIGAN

THE ECONOMY IS STILL HOPPING— AND FED WATCHERS ARE GETTING JUMPY

They're buzzing about a rate hike, which seems increasingly likely

U.S. ECONOMY

Here we go again. The hoopla surrounding Federal Reserve meetings had quieted down in recent months compared with last summer, when an interest-rate hike seemed imminent. Well, the ballyhoo is back. A few Fed watchers are even predicting that the central bank will lift rates as early as the Mar. 25 powwow, and not then, they say, the May 20 meeting looks like a sure bet. So will they hike, or won't they?

The renewed urgency in the policy discussion has arisen mainly because the economy has not slowed the way the Fed said last summer that it must in order to ease pressure on wages and prices. In fact, one report after another suggests just the opposite, that the economy is gaining momentum at a time when it is already operating dangerously close to its noninflationary limits.

The latest sign of strength comes from the labor markets, which the Fed has been watching the most intently. Nonfarm payrolls surged by 339,000 in February, besting nearly all expectations, and job growth has clearly accelerated. Also, the jobless rate dipped 0.1%, to 5.3%, and the recent drop in initial unemployment claims strongly suggests that it will go lower in coming months (charts). The rest of the report was strong as well, with hours worked rebounding robustly from January's rather-depressed levels, while wage growth continued its upward trend higher, especially in services.

SPITE ALL THIS, a rate hike as early as Mar. 25 is still a possibility. The crucial missing ingredient is evidence that higher costs arising from tight labor markets are fueling excessive demand for goods and services beyond what producers can satisfy without being forced to hike prices.

For now, demand indicators, such as commodity prices, capacity utilization rates, and the time it takes companies to produce and deliver merchandise, do not suggest that producers are under any great strain. These indicators weigh heavily in the Fed's decision-making process, and until they start to show more emerging pressure on prices that could fuel future inflation, the Fed has time to wait and watch.

The May 20 meeting is an entirely different matter. The way the economy is shaping up, those demand pressures are likely to become more evident this spring. That's partly because consumers are on a roll, fueled by the most supportive set of spending fundamentals in years (page 30). Consumer outlays are on a track to grow 3% to 4% this quarter for the second quarter in a row, after last summer's lull.

In the first quarter, a reversal of the fourth quarter's sharp improvement in the trade deficit will subtract heavily from economic growth, but that will hide the fact that domestic demand continues to gain momentum. The chief difference between now and last summer, when the Fed was on the verge of hiking, is that the economy now appears less likely to slow.

THE FED'S PRIMARY CONCERN

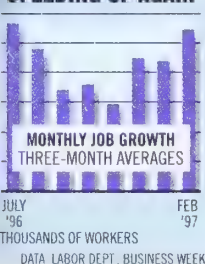
about the strength in the labor markets is that job growth is fueling the current round of consumer-led demand. True, the February rise in payrolls was overstated. Surprisingly good weather, following unusually severe weather in January, resulted in a 109,000 rise in construction payrolls, although the previous year's trend was only 25,000 per month. But even excluding construction, the three-month average of payroll gains has picked up sharply and broadly from the pace of last fall.

The most notable part of the February labor-market data was the rebound in hours worked. After January's weather-related plunge to 34.2 hours, from 34.8 hours in December, the average work-week soared last month to 35 hours, an 11-year high. Combined with fatter payrolls, overall work time jumped 2.7% in February, more than making up for January's 1.6% decline.

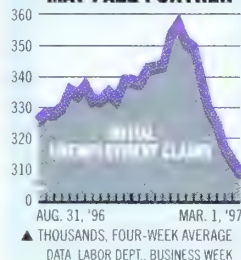
Manufacturing hours also jumped, implying that February industrial production rose strongly, and the output gain will boost capacity utilization. Output is now growing faster than new capacity is coming onstream, suggesting that this and other demand-side price pressures will intensify in coming months.

Another key implication of the February rise in work time is that first-quarter hours worked are on schedule to post an annual rate of increase of about 4%

PAYROLL GAINS ARE SPEEDING UP AGAIN



THE JOBLESS RATE MAY FALL FURTHER



from the fourth quarter. That pace suggests two things: One, quarterly growth in real gross domestic product remained strong, since hours worked is highly correlated with the quarterly pattern in GDP growth. And two, first-quarter productivity was stagnant.

The latter consequence is especially important in the Fed's thinking. Already, the Labor Dept. has revised fourth-quarter productivity growth sharply lower, cutting the originally reported gain of 2.2% in half, to 1.1%. As a result, unit labor costs grew 2.5%, instead of the tamer 1.4% first thought. Late in an expansion, productivity gains are harder to achieve as labor markets tighten, making it easier for wage gains to boost unit labor costs, a key factor in pricing decisions.

MOREOVER, TIGHT LABOR MARKETS continue to fuel wage growth. Average hourly earnings of production workers grew only 0.2% in February, a fact that seemed to soothe Wall Street's concerns about the stronger aspects of the jobs report. However, the three-month average of wages is up 3.8% from the same three months a year ago, the fastest pace in 6½ years, and service-sector pay growth is nearing 4%.

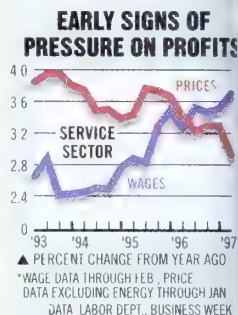
In fact, service wages are now growing a good deal faster than the 2.9% pace of nonenergy service prices for the first time in this expansion (chart). This pattern suggests emerging pressure on profit margins that could spur price hikes. Services will be a crucible for fu-

ture pricing trends, since they are more labor-intensive. Also, service productivity gains are smaller than those in manufacturing, and service pricing is less restrained by the strong dollar and global competition.

Of course, any worry that the Fed may have about future inflation would become moot if the economy begins to cool off, but right now, there is no sign of that. By the end of February, the four-week average of initial claims for unemployment insurance, a leading indicator of the economy and the jobless rate, had fallen to an expansion low, indeed the lowest since 1989.

The current level of claims is historically consistent with an unemployment rate of 5% or less. In fact, the jobless rate would be there right now if labor-force growth in recent months had not surged above its trend. However, the labor force is now growing faster than the adult population, a situation that can't last.

The bottom line is that the economy is moving slowly but inexorably toward the set of demand and cost conditions that will force the Fed to hike rates. It may not be there by Mar. 25, but the economy and the Fed are on a collision course for the May 20 meeting.



GERMANY

AT LAST, SIGNS OF A THAW

Germany had a tough winter—as did its economy. But little by little, signs of a revival are cropping up, increasing the chances that the government will meet its 2.5% growth target for 1997. Any upturn will be very unbalanced, though, the result of surging exports and depressed consumer spending.

The economy barely grew in the fourth quarter, with real gross domestic product up 0.1%. Growth was held back by slumps in construction and consumer outlays. Still, that was a tad better than expected, as exports and equipment investment strengthened. First-quarter growth is likely to be about flat as well, but

that mainly reflects the coldest winter in decades, which caused an extraordinary 25% drop in January construction output.

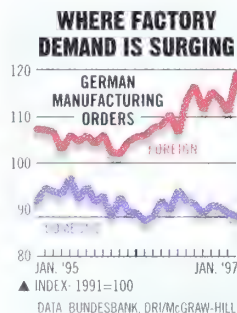
The outlook is improving, however. In January, manufacturing output accelerated, as factory orders rose strongly. Foreign bookings, buoyed by the weaker German mark, led the advance, even as domestic orders, depressed by heavy joblessness, remained listless (chart). Also, business confidence rose to the

highest level in 1½ years, and machinery orders climbed sharply, suggesting that the export-led upturn is broadening to include capital spending.

Even the latest word from the

job markets has a silver lining. Joblessness remained at a record 11.3% in February, but the rise appears to have run its course. Indeed, some of the recent surge in unemployment has been the result of temporary factors that should reverse this spring. In particular, a new policy this winter required construction workers to register as unemployed in order to receive “bad weather” benefits.

By cutting into government revenues and lifting outlays, high joblessness is hampering Germany's efforts to reduce its 1997 public-sector deficit to 3% of gross domestic product, as required by the Maastricht Treaty for entry into a single-currency Europe. But with growth picking up, the government's chances of reaching its deficit goals will improve as the year progresses.



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Home sales are booming—and so are bankruptcies. Dealers are besieged with demand for 36-inch TVs decked out with stereo VCRs and satellite dishes, but used-car lenders are running out of gas. The mail brings 401(k) statements brimming with paper profits to high-income Zip Codes and dunning notices from credit-card issuers to poor ones.

Welcome to the schizoid credit market of 1997, where your forecast for consumer spending—indeed, for the entire economy—depends on which end of the income scale you study. Alarmists note that record-high consumer debt-to-income ratios and credit-card write-offs are sending out recession signals (chart)

Consumers are split: Many middle-class borrowers have hit the credit wall, but the upscale have plenty of running room

and tremble over just how long household spending can continue to power the economy.

But the overall numbers conceal a crucial split: In low- and middle-income households, there's a mounting debt crisis. High-end borrowers—with billions in stock market gains—are doing just fine, thank you. Indeed, they are hotly pursued by banks, which still stuff mailboxes with 2 billion credit-card offers a year. "That market is a long way from being tapped out," says Nicholas Perna, chief economist at Fleet Financial Group Inc.

Nowhere are these crosscurrents watched more closely than at the Federal Reserve. With all but high-tech businesses slowing their investment spending, Fed Chairman Alan Greenspan knows that happy, confident con-

sumers are crucial to the economy's continuing growth. Greenspan hopes households can maintain a tightrope act: spend enough to sustain the economy but limit borrowing to work down debt.

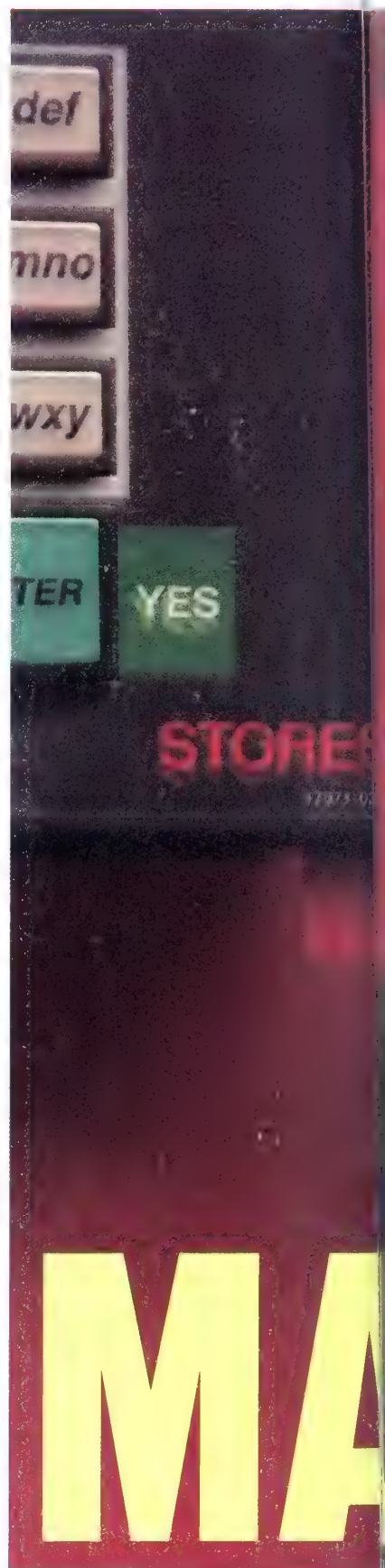
For now, Greenspan has reason to feel content. The alarming level of debt, among lower wage earners, though worrisome, isn't enough to bring down overall consumer spending. With employment and incomes rising, he thinks overall spending should continue to increase, too. After all, the \$50,000-plus households with healthy balance sheets control more than 60% of total personal income and are buoyed by Wall Street's gains. And barring a big shock such as a stock market plunge, they can sustain moderate growth for the economy.

The split credit market isn't easy to measure. But a 1995 Fed survey shows that households below the \$50,000-income level are stressed: Their monthly payments rose from 15% of income in 1989 to almost 18% in 1995. By contrast, families with incomes over \$100,000 cut payments from 14% of income to 12%.

One reason low- and middle-income families got in deeper: Lenders made it easier for them to borrow and launched massive marketing efforts to get new customers. That's a main reason why, in the \$25,000-to-\$50,000 group, balances on credit cards, installment loans, and credit lines shot up 30% in three years, to \$11,000 in 1995.

Easy credit is now coming back to haunt borrowers. Iris Foster-De Nieuwe, an assistant at a Chicago brokerage house who earns in the mid-\$20,000s, is struggling to pay down \$28,000 on nine credit cards. "Credit's a double-edged sword," she warns.

Ask Carole A. Stedman. On a \$36,000 salary as assistant manager at a San Francisco Safeway supermarket, she enjoyed luxury vacations, lots of new



MESSAGE FROM THE

clothes, and frequent dinners out. Her credit-card debt: \$25,000. When Stedman resorted to taking a cash advance on a credit card to pay the card's monthly bill, she knew it was time to slow down. But even after a charge-free month, Stedman was shocked to see that new interest exceeded her payments. "It's like a diet where you lose 20 pounds and gain back 30," the 34-year-old says. "A lot of people I know are in this boat."

It's a full boat indeed. The caseload at Pittsburgh's Consumer Credit Counseling Service of Western Pennsylvania climbed 22% in 1996. Nationwide, 201,770 families filed for bankruptcy in 1997's first nine weeks, up 51% from the same period in 1995.

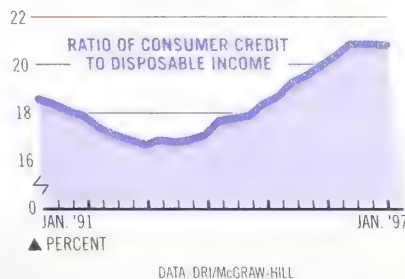
That's taking a toll on lenders, especially "subprime" financiers that make auto and mortgage loans to consumers with poor credit. In the auto market, such lenders zoomed to \$70 billion in loans in 1996. But subprime lenders saw their stocks tumble recently with the bankruptcy of Jayhawk Acceptance Corp. and fraud allegations at Mercury Finance Co. "Middle America and below is bearing the brunt of the economy's problems," says A. Mark Berlin Jr., executive vice-president at Olympic Financial Ltd. "And that's where we lend."

TIGHTER STANDARDS. There's reason to believe that before overburdened borrowers become a drag on the economy, lenders will slow the plastic binge. For the past nine months, Fed surveys have shown more banks tightening loan standards than easing them. First Chicago NBD Corp., the fifth-largest credit-card issuer, expects to add 1.6 million customers this year, vs. 3 million in 1995. Its latest mailing went to 9 million households—down from 27 million in a 1995 campaign.

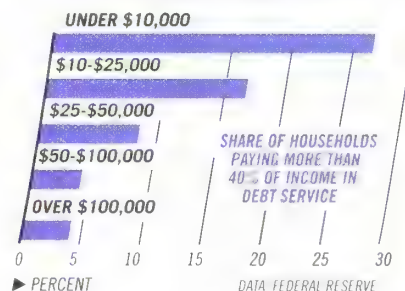
Not that the banks are stomping on the brakes. An American Bankers Assn. panel of economists predicts credit-card debt will rise 5.8% in 1997—enough, they figure, to boost inflation-adjusted consumer spending by 3% in an economy that's expected to grow 2.3%. "Consumers aren't going into a tailspin," says Merrill Lynch & Co. economist Bruce Steinberg.

Retailers certainly hope not. In February, major chains posted a 4.7% increase in same-store sales from a year ago. Home Depot Inc., the Atlanta-based mecca for do-it-yourselfers, chalked up 7% growth in same-store sales for the

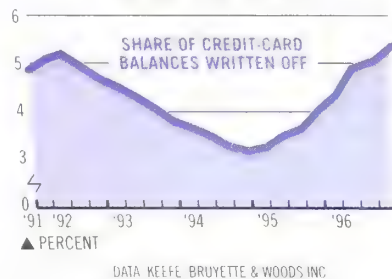
CONSUMER DEBT IS AT RECORD LEVELS...



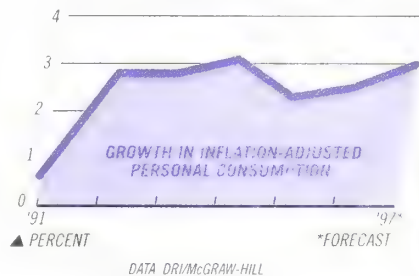
...THE POOR FEEL IT MOST...



...AND DELINQUENCY IS ON THE RISE...



...YET SPENDING IS HOLDING UP



fourth quarter—a pace it hopes to maintain through 1997.

The picture's not so rosy in Detroit. Analysts project sales of 15.1 million cars and light trucks in 1997, the same as last year's healthy total. But auto makers are paying plenty in incentives and lease deals: For example, just four months after it was introduced, the Cadillac Catera is available on a \$399-a-month lease, a subsidy worth \$4,100 on a \$32,000 sedan, estimates Art Spinella of CNW Marketing/Research.

So what are confident, upscale consumers shopping for? Anything to make their homes cozier. Furniture retailer Ethan Allen Interiors Inc. posted a 10.9% rise in sales in 1996's second half. And Zenith Electronics Corp. predicts industry-wide sales of big-screen TVs will climb 22%: "Baby boomers are big purchasers, and more and more is on credit," says sales chief William J. Sims.

BULL MARKET BOOST. The urge to nest is providing plenty of work for Michael J. Galvin. His Anchor Design & Renovation Inc., which operates in Boston's pricey western suburbs, is booked for the next 18 months. Galvin attributes that to the bull market. Many customers, he notes, pay with checks drawn on brokerage accounts. A stock market tumble, he adds, "would have a huge impact on our business."

On the other hand, the market's 74% gain over the past two years—some \$2.5 trillion in paper profits—has not produced the inflationary spending associated with the "wealth effect." Economists calculate the new money could trigger \$75 billion in extra spending. But it hasn't, and there's a good reason: The profits are piling up in 401(k)s and other retirement plans workers don't tap.

If Wall Street falters, of course, consumers could go into a funk—and a spending freeze. "If stocks drop, debt levels that people can live with now are suddenly going to feel precarious," says Mark M. Zandi, chief economist at Regional Financial Associates Inc. Greenspan, for one, fears that debt levels could magnify a stock market shock, perhaps triggering a deep enough cut in consumer spending to spark a recession.

That's a risk the Fed chief has to live with. The Fed's best hope is to keep consumers happy long enough to let job and income growth catch up to where debt is in line—and some balance can be restored to the bifurcated credit market. More spending, but less of it on plastic, is what Dr. Greenspan would prescribe at this late stage of the business cycle.

By Mike McNamee in Washington and Richard A. Melcher in Chicago, with bureau reports

News: Analysis & Commentary



REGULATORS

SUPERSTORES ON NOTICE

The FTC's actions on the Staples-Office Depot deal signal a hard line toward giant retailers

In the end, a couple hundred million suddenly no longer seemed like such a big deal—certainly not if it stood in the way of a \$4 billion merger that had been months in the making. That's what Thomas G. Stemberg, chairman and CEO of Staples Inc., and David I. Fuente, Chairman and CEO of Office Depot Inc. finally concluded. Those millions represented the gap between what they were demanding for 63 stores and what the buyer, OfficeMax Inc. was willing to pay. They had pursued the sale in hopes it would satisfy Federal Trade Commission concerns about how a proposed merger of Staples and Office Depot might eliminate competition in key metropolitan markets.

On Mar. 10, Stemberg suddenly found that he no longer had such a big problem with the low-ball OfficeMax bid. On that day, the FTC announced that since Staples had not sold off the stores that the FTC felt would give the merged office-supply chains undue market power, it would seek an injunction to end the merger altogether. Two days later, Stemberg had a deal: Negotiating through the night of Mar. 11 with OfficeMax CEO Michael Feuer and Fuente, CEO of Office Depot, the companies agreed to sell the stores for \$108.75 million, or about \$1.7 million each. That's well below the \$290 million that a source close to the talks says

was Stemberg's starting point—and the \$3.5 million per store he previously said was his bottom. But those negotiations had foundered on "ego, economics, and locations," notes Feuer.

Painful? Perhaps. But much less so than a bruising battle with the FTC. In fact, within hours of coming up with the store sale proposal, the companies asked the FTC to delay filing any temporary restraining order against the merger.

Whether the FTC now gives the merger a green light is still open to question. Wall Street is eager for the deal to go through, but consumer groups are watching closely. "We've been opposed to any restructuring of the deal that divested stores to OfficeMax," says James T. Love, director of the Consumer Project on Technology, which opposed the merger.

However the deal shakes out, though it is likely to be a landmark in FTC merger oversight. Indeed, the FTC's initial decision to block the deal caused furor among antitrust attorneys, retail analysts, and consumer advocates. Even if the deal is settled, the FTC's opposition signals a new approach to interpreting modern-day retail markets. "The FTC is pushing into new territory," says Washington antitrust lawyer Mark Schildkraut. "It's not as black and white as before."



The FTC argues that superstores compete only among themselves. The agency "is pushing into new territory," says one antitrust lawyer

CATEGORY KILLER: A STAPLES STORE

What's different? In recent years, costbusters have viewed retailing as a voraciously competitive business where bargain-hunters have lost brand or store loyalty. Because of that, in 1995, the Justice Dept. passed on the Federated Department Stores' acquisition of Kmart's. But now, the FTC argues that competition among a new retail phenomenon—category-killer superstores—is different. And whether or not this case is settled, "the business community tends to note the increased reliance by the FTC on this theory," says Phillip A. Hager, a Washington antitrust lawyer. With the help of internal documents from Staples and Office Depot, the FTC concluded that office-supply superstores form their own unique market. It contends that customers don't see Office Depot and Staples—or even Wal-Mart—as substitutes for a Staples. If Staples were to raise prices, shoppers would turn to Office Depot or OfficeMax, instead of the corner store. FTC officials note that Staples' Stemberg said in a speech in August that he didn't view Wal-Mart as a competitor. What's more, through econometric modeling of the companies' internal data, the agency found that Staples' prices were as much as 5% to 15% lower in markets where it competed with

Office Depot and OfficeMax than where it operated alone.

Calling the FTC's view "flat-out naive," Stemberg vowed to fight in court. The prime motivation for the deal, Staples executives argued, was to achieve greater efficiency which would lower prices—a point Staples and Office Depot trumpeted in an ad campaign. Staples and Office Depot's combined share of office-product sales in the U.S. is less than 6%, they point out.

To dispute the FTC, Staples commissioned a study by Jerry A. Hausman, a finance professor at Massachusetts Institute of Technology. Hausman claims the FTC's pricing study is flawed for the same reason that the government's old

inflation index was flawed: The basket of goods used to measure prices was not weighted according to how much people actually spend. If the FTC had used this method, the price differences in competitive versus noncompetitive markets would average only 5% to 6%, Hausman contends.

Some antitrust specialists agree that the FTC will have trouble justifying its treatment of category killers like Staples as a separate market. The FTC's conclusion "seems like a fairly rigid market definition that's going to be fairly difficult to prove in court," says Kevin J. Arquit, former director of the FTC's bureau of competition and now with the New York law firm Rogers & Wells. William E. Kovacic, who teaches antitrust law at George Mason University, says the FTC's methodology is still a prototype which has not been fully tested in the courts.

Still, neither Staples nor Office Depot were willing to wage a flat-out court battle to prove the FTC wrong. To avoid that, Mark J. Mandel, an analyst with Chicago Corp., figures that Staples settled for a price that's only slightly above inventory value. The merger, he adds, would mean too much to Staples and Office Depot for them to walk away now. "There's way too much to gain for Staples but particularly for Office Depot" in reaching a deal with both OfficeMax and the FTC, he says.

JUMPING SHIP. Office Depot is especially vulnerable if the merger is ultimately blocked. In the six months since the deal was announced and the FTC began its review, Depot has lost more than a dozen middle managers who didn't want to wait and learn of their post-merger fates. And while Depot's overall sales grew in 1996, its operating profit has been squeezed.

Meanwhile, OfficeMax has taken advantage of the situation to accelerate its expansion. It now has more than 576 stores, no debt, and \$260 million in cash. And with the Mar. 12 proposal, OfficeMax would gain new markets in Baltimore, Louisville, San Diego, Tampa/St. Petersburg, and Washington, D.C., among others. "While Staples and Depot were looking over their left shoulder to see if we were in the passing lane, we passed them on the shoulder," says Feuer. That's precisely the situation Staples and Office Depot have been trying to prevent all along.

By Gail DeGeorge in Miami, Catherine Yang in Washington, and Geoffrey Smith in Boston

TOO MANY PRICEY PAPER CLIPS?

The Federal Trade Commission worries that, because Office Depot and Staples both have stores in the same areas in 18 states and the District of Columbia, a merger of the chains would reduce competition and raise prices.



DATA: FEDERAL TRADE COMMISSION

MEDICINE

A JOLT OF RELIEF FROM PARKINSON'S DISEASE

Medtronic's pacemaker-like brain implant stops the shaking

For two decades, Howard Zirkle fought a losing battle against Parkinson's disease. The Minster (Ohio) diesel mechanic was forced to retire at age 55 because uncontrollable trembling of his arms and hands prevented him from steadying a screwdriver or wrench. At home, Zirkle needed his wife's help to button his shirt, pour his coffee, and brush his teeth. "It was very embarrassing," says Zirkle, now 72. "I would walk around with my hands in my pockets so people wouldn't see the shaking."

These days, though, Zirkle says he's getting relief. A tiny electrical device implanted in his brain in early January sends a pattern of rapid-fire signals that seem to override signals from the hyperactive nerve cells that cause Zirkle's tremors (diagram). Called Activa, the device is being tested on Zirkle and other Parkinson's patients by Minneapolis-based Medtronic Inc., a leading supplier of heart pacemakers. "We're taking our electrical stimulation therapy and using it for diseases that haven't been treated in the past," says Medtronic Chief Executive William W. George.

BIG PLANS. Now, Activa may come into widespread use. A Food & Drug Administration panel was expected to recommend approval of the device on Mar. 14. To bolster its case, Medtronic submitted raves from Zirkle and other patients. "I'm eating with a fork like I did 20 years ago," crows Zirkle. "And I can fill a cup of coffee without spilling a drop."

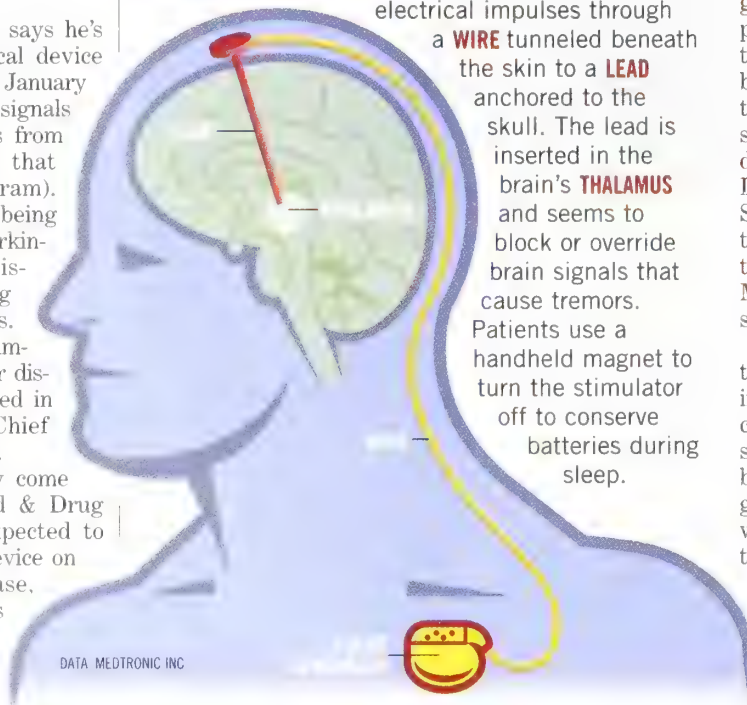
Medtronic, which successfully launched Activa in Europe in 1995, has big plans for the product in the U.S. An estimated 2 million Americans suffer from Parkinson's and related illnesses such as Essential Tremor. According to the National Institutes of Health, the diseases cost Americans \$6 billion a year in med-

icine and treatment. Medtronic expects U.S. sales to hit about 10,000 annually within five years. At \$10,000 per Activa, that would amount to \$100 million in annual sales for \$2.4 billion Medtronic (No. 31 on the new BUSINESS WEEK 50—

TAMING TREMORS

Medtronic's Activa quells shaking caused by Parkinson's disease and other illnesses. A **PULSE GENERATOR** resembling a heart pacemaker is surgically implanted near the collarbone. It sends electrical impulses through

a **WIRE** tunneled beneath the skin to a **LEAD** anchored to the skull. The lead is inserted in the brain's **THALAMUS** and seems to block or override brain signals that cause tremors. Patients use a handheld magnet to turn the stimulator off to conserve batteries during sleep.



page 91). "It proves that Medtronic's outlook is bright beyond pacemakers and defibrillators," says Gregory J. Simpson, an analyst with A.G. Edwards in St. Louis.

Activa does have drawbacks. It's fully effective against Essential Tremor, but alleviates only one symptom of Parkinson's: the tremors. Left untreated are

rigidity in the limbs and joints, slowness in movement, and impaired balance and coordination. Also, because implanting Activa involves brain surgery, there's the risk of hemorrhaging and stroke. Potential side effects, while generally mild, can include tingling in the limbs, slurred speech, slight paralysis, and loss of balance.

"FRUSTRATING." Essential Tremor and Parkinson's occur when there is a degeneration of neurons that make dopamine, a substance that enables communication among the brain cells involved in the control of movements. The reduced level of dopamine damages those

brain cells. Neurologists who are largely dissatisfied with the progress they've made in treating the disease. Companies are experimenting with a variety of approaches, from gene therapy to transplants of neurons from fetal-pig brains. "This has been an incredibly frustrating illness to treat," says Dr. Jean M. Hubblé, director of the Parkinson's Disease Center at Ohio State University, who participated in the FDA's Activa trials. "That's what Medtronic's technology is so remarkable."

In addition to using Activa, Medtronic is attacking Parkinson's with SynchroMed, its drug-infusion system. Working with biotech drugmaker Amgen Inc., it is developing a way to use SynchroMed to deliver Amgen's nerve growth factor to brain cells. The companies are hoping that will reduce the degeneration of dopamine-producing cells.

But it's Activa and other electrical stimulators that have Medtronic executives most excited. On the list for development: pacemaker-based devices for incontinence, sleep disorders and obesity. A few well-timed electrical jolts, it seems, can work medical miracles.

By Ron Stodghill II in Chicago

Sufferers of incontinence, sleep disorders, and obesity may someday benefit from electrical-pulse technology

By Howard Gleckman

CAMPAIGN MONEY: NOW EVERYBODY IS IN A GLASS HOUSE

DOn Feb. 27, Senate Majority Leader Trent Lott (R-Miss.) took a break from slashing President Clinton's fund-raising foibles to sign a letter. For just \$5,000, the senator wrote, business executives could join the Presidential Roundtable, one of many organizations that the GOP has created to raise money for Senate candidates.

What would donors get for their \$5,000? Lott couldn't sell the night in the Lincoln Bedroom, but he could offer access to powerful pols: "Our Spring Forum [will] give you plenty of opportunity to share your personal ideas with some of our top Republican leaders." And, Lott warned, "by failing to act today, you could lose a unique chance to be included in current legislative policy debates that will affect

your... business for many years to come."

That pitch explains why the Senate Republican leader and scores of lawmakers in both parties remain implacable foes of campaign-finance reform. Nearly every day, some Democratic or Republican campaign committee grinds out fund-raising appeals similar to Lott's. The sleazy money chase never ends—in Congress or the White House. And while the Democrats have polished their skills lately, the GOP still raised nearly \$20 million more in party money in 1996.

LAST-MINUTE REVERSAL. For a while, it looked as if Lott & Co. would have it both ways. They could express outrage at White House fund-raising abuses while opposing meaningful reforms. However, that all changed on Mar. 11. Republicans had generated so much heat over Clinton's money grab that they could no longer limit the congressional campaign-finance probe. Polls show that the public is just as disgusted with the GOP's role in the shameful system. So, hours before the Senate was to vote for a tightly focused—and partisan—inquiry into White House practices, Republican lawmakers gave in to demands for a look at the whole mess.

Is this one of those rare



THOMPSON: His hearings may shatter GOP windows, too

Capraesque moments when the voice of the little guy gets through to Washington? It could be. Senate Governmental Affairs Committee Chairman Fred Thompson (R-Tenn.) now has broad latitude to hold hearings that could give the public a glimpse of how pervasive the money madness is. And this investigation could turn up the heat for serious reform. That's the last thing Lott and his allies want. But it is exactly what is needed. The hearings would "pull back the curtain on all these questionable practices," says Bill Hogan, director of investigative projects at the nonpartisan Center for Public Integrity.

Until the last-minute reversal, Lott had tried to limit Thompson's investigation to just illegal activi-

"By failing to act today, you could lose a unique chance to be included in current legislative policy debates that will affect your... business."

TRENT LOTT

Letter to prospective donors, Feb. 27

ties. Under those ground rules, little of what outrages the public would ever have gotten a full airing. Clinton's now-infamous White House coffees and Vice-President Al Gore's phone-a-thon were probably legal. So are solicitations such as the ones Lott sent out last month.

LEGAL SLEAZE. However, just because it's legal, it isn't necessarily good government. The most egregious of the legally permissible abuses revolve around the "soft money" that helps politicians skirt the limits on campaign donations. These dollars ostensibly go to political parties for general purposes—but the funds are really funneled to candi-

dates for President and Congress. In 1996, nearly \$260 million was raised in this manner, three times the amount that was collected in 1992. Says retiring Senator John Glenn (D-Ohio): "The problem is not just what politicians do that is illegal. It is what politicians do that is legal that is an equal scandal."

Now the public will get an opportunity to learn more about that real scandal: the pervasive corruption of the campaign system. Republicans will get their hearings laying bare the fund-raising practices of the Clintonites. And reformers in both parties will be able to show voters how members of Congress shake their own money trees.

Senate GOP fund-raiser-in-chief Mitch McConnell (R-Ky.) says that giving money is a First Amendment right, and he insists he's proud of all the big bucks he has dug up. But one wonders how boastful the senator will be when he and others who share his views are in front of the television cameras trying to explain it all away to an angry public. It'll be quite a show—one that may be the catalyst for reforms these pols hope never to see.

Gleckman follows political and economic trends in Washington.

TRANSPORTATION

A SMALL-JET DOGFIGHT OVER TEXAS

Mesa and Legend target regional business travelers

There are no baggage carousels or security systems at Fort Worth's Meacham International Airport—there has been no commercial passenger service for almost a decade. And the Flight Line Café recently closed. But starting on May 5, Mesa Airlines Inc. hopes to turn this aging airfield—about 15 miles from the American Airlines Inc. megahub at the Dallas-Fort Worth International Airport—into a thriving destination served by a new breed of small jets. "It's the single most exciting experiment in the regional airline industry," says analyst Samuel C. Buttrick of PaineWebber Inc.

Mesa is bringing the regional-jet revolution to American's doorstep—and at a critical moment. Regional jets make it possible for carriers to replace turboprops with more frequent jet service and to add direct flights on some thinly traveled routes—Dallas to Boise, for instance—that now require passengers to use connecting or one-stop flights through major airline hubs.

JUMP START. Regional jets are also at the heart of the contract dispute between American Airlines and its pilots. One issue that led to the brief Feb. 15 strike is American's plans to fly the same kind of 50-seat jets that Mesa will bring to Meacham. The union wants its pilots at the controls—not lower-paid AMR Eagle commuter pilots. American planned to resume talks with the pilots' union on Mar. 14 and is awaiting input from a Presidential Emergency Board.

While American and its pilots battle, some smaller airlines are getting a jump on the nation's No. 2 carrier. Mesa, part of Mesa Air Group, based in Farmington, N.M., is treading where two other startup carriers failed in the 1980s. But Peter Otradovec, president of Mesa's Fort Worth operation, argues

that those predecessors were undercapitalized and using unpopular turboprops. Mesa intends to have 10 new Canadair regional jets from Bombardier Inc. in service at Meacham within a year, with 60 daily flights within Texas. "The regional jet is really what makes the market for us," says Otradovec, who adds that Mesa can break even at about 61% of capacity. But Mesa's wings have been clipped for now. Its lease with Fort Worth prohibits interstate flights. Mesa intends to fight that restriction.

In addition to Mesa, there is upstart Legend Airlines, which aims to start service this fall at Dallas' Love Field, home of Southwest Airlines Co. Legend is considering using regional jets to fly to such cities as Burbank, Chicago, and Kansas City.

Backed in part by the Pritzker family of Chicago and Dalfort Aviation CEO Bruce Leadbetter, Legend aims to draw business travelers who would rather not make the trek to American's hub. At the same time, Legend would be protected from direct competition with Southwest, thanks to the so-called Wright Amendment. That federal law prohibits most passenger service from Love beyond Texas and the four contiguous states.

But the law includes an exception for planes with 56 seats or less, which Legend believes would include the regional jets it plans to use. The airline is also arguing with the Transportation Dept. for



A CANADAIR AT BOMBARDIER'S MONTREAL HANGAR

the right to use McDonnell Douglas Corp. DC-9s or Boeing Co. 737s reconfigured for 56 seats. "A little competition would be good for American," says Allan McArtor, Legend's CEO and an ex-Federal Aviation Administration official.

Neither American nor Southwest is panicking. Southwest still boasts low costs, and American could mount legal challenges to the interlopers. Says one regional airline exec: "If I rank-ordered every possible opportunity [for regional jets], Meacham wouldn't even be at the bottom of the list."

And nobody expects American to wait to respond. "[CEO Robert L.] Crandall isn't just going to sit there and let Mesa capture his loyal frequent fliers," says analyst William L. Wrightson of Alex. Brown & Sons. American could add jet capacity to routes rivals enter to beef up frequent-flyer perks. Whatever happens, this will be only the first of many skirmishes in the regional-jet war.

By Wendy Zellner in Dallas

GOOD-BYE TURBOPROPS

*What's new:
Powerful jets that
don't need to go
through hubs*

MESA AIRLINES Service from Fort Worth set for May 5. Within a year, plans to have 10 Canadair 50-seat jets. Targeting business travelers with a nearby airport, low fares, and frequent service—only within Texas for now.

LEGEND AIRLINES Will use regional jets and/or DC-9s or Boeing 737s cut to 56 seats to fly to spots not directly served by Southwest. Flights from Dallas' Love Field target business travelers set for Burbank, Chicago, and Kansas City.

AMERICAN AIRLINES Its regional-jet plans are currently entangled in contract negotiations with its main pilots' union. American pilots want their own union members—not American Eagle commuter pilots—to fly the small planes.

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COMMENTARY

By Amy Barrett

POLITICS SHOULDN'T RULE THE AIRWAVES

President Clinton's call on Mar. 11 for free television airtime for candidates was great political theater. Under pressure from the campaign-finance scandal, the President now wants the nation's broadcasters to cough up that TV time in exchange for receiving a free second television channel. The Federal Communications Commission is awarding broadcasters the new channels to begin the transition from the current analog television system to advanced digital TV.

Clinton's free-airtime proposal may be a smart political move. But it's hardly good policy. Because few in Washington had the will to take on the powerful broadcasters and force them to pay up front for the new spectrum—which is estimated to be worth upwards of \$70 billion—pols are now trying to win some other political concessions after the fact. And there's the problem in a nutshell: Increasingly, lawmakers and policymakers in Washington are viewing the spectrum as a quick fix for political problems, ranging from the campaign-finance mess to the hole in next year's federal budget. But this airwave capacity, used to carry everything from TV signals to cell-phone calls, is a valuable national resource that should be managed according to sound policy, not political imperatives.

UNDER THE GUN. Congress, the Administration, and the FCC should stick to the four-year-old system of auctioning spectrum off to the highest bidder. And the FCC should give the buyers even more flexibility for finding the best use for it. Auctions with few strings attached can spark innovation while putting spectrum into the hands of the people who value it the most and adequately compensating taxpayers for its use.

Auctions done in a rushed manner simply to raise money, in contrast, can lead to the squandering of a valuable asset. Mandating airwave sales based on a deadline for eliminating the federal deficit means less consideration is given to selling those assets at the best time to garner the best price. That sort of approach is already creating headaches

to their new owners until 2006. But industry experts warn that many Americans may want to use old analog sets well into the next century. That could delay indefinitely the return and auction of that original channel—and give the broadcasters a chance to use the extra “transitional” bandwidth indefinitely.

Indeed, the requirement that broadcasters return the original analog channel creates a perverse incentive to delay the digital transition. It's no surprise that the networks are now warning that digital TV won't be widely available for years. In the meantime, broadcasters can use their extra capacity to offer services such as paging or data delivery—if they pay the government an extra fee for the privilege. If broadcasters had been forced to pay for their spectrum up front, no such strings would have been attached. “We are taxing innovation,” says James L. Gattuso, vice-president for policy development at conservative advocacy group Citizens for a

Sound Economy. “So spectrum could be wasted.”

If auctions are done properly, they allow the market to find the best use of spectrum. Who says that television is best for those precious frequencies, anyway? Given that TV is often received via cable and satellite, perhaps those frequencies could be used better for other services.

It may be too late to stop the spectrum handout to broadcasters. But Washington policymakers still have time to make sure the rest of this national treasure is managed responsibly.

Barrett covers telecommunications in Washington.



The spectrum giveaway is a missed opportunity—and the big loser is ultimately the consumer

NETWORKS ARE ALREADY WARNING OF DELAYS IN DIGITAL TV

at the FCC. Under last year's catch-all appropriations bill, the agency is under the gun to sell off another chunk of spectrum space for wireless communications by Apr. 15. Problem is, that deadline has left little time for potential bidders to study what they can do with that airwave capacity or to raise capital to bid in the auction. Now FCC officials are worried the auction could be a bust.

It's also risky to treat revenue from future auctions as money in the bank. The White House is banking on future spectrum sales to generate \$47 billion in revenue by 2002. That calculus is based on a convoluted scheme in which the government auctions the original analog channels in 2002 but doesn't hand them over

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LIFTOFF AT
CAPE CANAVERAL

MEDIA

CAN TCI LAUNCH ITS SATELLITE STRATEGY?

Direct-broadcast hopes hinge on taking over Primestar

For a decade, Tele-Communications Inc. CEO John C. Malone relied on the dealmaking skills of mergers-and-acquisitions head Gary S. Howard to snap up cable systems across the U.S. That made TCI a giant. Now Malone is counting on the 45-year-old Howard to make TCI a player in satellite TV, too.

This could be the toughest deal yet for Howard, now president and CEO of TCI Satellite Entertainment Inc. The company's main asset is a 21% stake in the market-lagging Primestar system, which is owned in partnership with five other companies, including Time Warner Cable and General Electric. Howard's proposed deal: to put Primestar under one roof—his own. He is negotiating with the other owners to acquire the balance for \$1.1 billion in cash, assumed debt, and TCI Sat stock. But the partners, reluctant to cede control, have been dragging their heels. Also, TCI Sat stock is off 50% from a peak of 19 last November when it began trading on a when-issued basis, before the operation was spun off to TCI shareholders. That alters the deal's math considerably.

If he gains control, Howard will tackle a bigger problem: getting Primestar, which already trails market leader DirecTV, into a higher orbit before the onslaught of Rupert Murdoch. Primestar has just 1.7 million subscribers compared

with 2.5 million for DirecTV. Murdoch is now jumping in with a \$1 billion investment by his News Corp. in EchoStar, which will relaunch as Sky—a system that will eventually have seven satellites and provide 500 channels of premium sports, movies, and local channels.

Part two of Howard's strategy is launching a second service called CablePlus. Unlike Primestar, which is geared to viewers who can't get cable TV, CablePlus is a supplement for cable subscribers—primarily the 20 million or so using systems with only 30 to 40 channels. Howard hopes cable companies will sell CablePlus to keep those customers from defecting to DirecTV or Sky.

Negotiations to unify Primestar under TCI Sat are expected to be completed by this summer, says Primestar CEO Jim Gray. Howard warns that "there are still a million miles of paperwork ahead of us." But the logic for merger is inescapable. Today, Primestar is a "multi-headed monster," says Washington satellite consultant Michael Alpert. Daniel O'Brien, head of Time Warner Inc.'s satellite unit, agrees: "There are many points of redundancy."

News Corp.'s satellite move could even be a plus for dealmaker Howard: The threat of Murdoch should encourage the Primestar partners to listen to TCI's plan.

By Eric Schine in Los Angeles

COMPUTERS

PARTNERS OR 'PARASITES'?

Apple's talk of hiking clones fees alarms needed allies

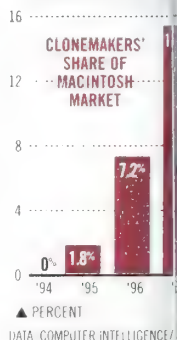
Given the steady decline in Apple Computer Inc.'s fortunes, you would think it would do everything it can to hold on to allies. Among the most steadfast have been the companies that have built businesses around Mac clones. In recent months, it has been their machines—not Apple's—that have slowed the Mac's market-share slide. But Apple management, always ambivalent about the clone strategy, has been considering a big hike in licensing fees that would make clones less competitive. "The clones are just parasites," a top Apple official said in a Mar. 4 interview. "They're just sucking the blood out of the market. I'm all for licensing, but get a reasonable amount of money."

An outcry from clonemakers prompted Apple to reconsider draconian changes in licensing fees. But the impulse to lash out at the clones could cause permanent damage by prompting clonemakers to accelerate plans to expand into the so-called Wintel market—PCs based on Intel Corp. chips and Microsoft Corp.'s Windows software. On Mar. 9, UMAX Database Systems announced a Pentium PC aimed at Mac strongholds in publishing and graphics. Power Computing Inc., an effective Mac crusader, is gearing up for a major Wintel push, too.

It's easy to see why Apple now resents the clones. Rather than developing new markets, they took share from Apple itself. That stings at a time when Apple is hitting new lows. Losses could exceed \$600 million this quarter, and on Mar. 14, the company was expected to announce a huge layoff. Fatter licensing fees may help short-term, but at a steep price: the loss of allies that can help assure the Mac's long-term survival.

By Peter Burrows in San Francisco

CLONE POWER



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CAN'T WAIT TILL SUMMER? NEITHER CAN HOLLYWOOD

The studios are jumping the gun in a year of titanic expectations

Time was when it was next to impossible to find a Hollywood blockbuster opening between Christmas and Memorial Day. But that was before Hollywood budgets reached their current stratospheric levels.

These days, the major studios seem hell-bent on producing the most expensive movies they can. How else can one explain paying Arnold Schwarzenegger \$1 million a minute for his 25-minute performance in the new *Batman and Robin*? Indeed, Hollywood is spending so much on so many movies that some marginal but pricey flicks—those costing over \$60 million—are dropping out of the summer blockbuster parade in order to avoid being trampled. That's why you're seeing summer fare at the local 12-plex long before the first signs of spring.

"BIG FISH." "You could argue that summer really started on Martin Luther King's Birthday," says Walt Disney Motion Pictures Chairman Richard W. Cook. The re-release of *Star Wars* has grossed more than \$130 million. *Dante's Peak*, which opened Feb. 7, brought in \$58 million and could break even once overseas and video revenues come in.

Other blockbuster films originally scheduled for summer but opening this spring include Columbia Pictures' trouble-plagued *The Devil's Own*, starring Harrison Ford and Brad Pitt; Jim Car-

rey as a lawyer who can't lie in Universal Pictures' *Liar, Liar*; and *The Saint*, from Paramount Pictures Corp., starring Val Kilmer. Each carries a hefty price tag, with *The Devil's Own* and *The Saint* each costing more than \$80 million. The reasoning behind the new schedules, says Phil Garfinkle, president of international

services at box-office watcher Entertainment Data Inc.: "Do you want to be a big fish in a little pond, or a little one in a big pond?"

The shift began when Metro-Goldwyn-Mayer Pictures generated a surprising \$124 million in March, 1996, with *The Birdcage*—a movie that was not expected to be a big hit. Other studios took note of the large audiences. "We used to worry about weather, a lot of things, earlier in the year," says Thomas Sherak, president of worldwide marketing for Fox Film Entertainment, which is releasing the big-budget *Volcano* in late April.

"Now, we figure if the film works, the audience is going to find it."

A movie that doesn't work will quickly get lost this summer. Hollywood has a bumper crop of big-budget spectacles. In 1996, more than half the summer films generated less than \$1 million each at the box office, according to Entertainment Data.

So what are the likely big winners

this summer? Universal's *The Lost World* and *Batman and Robin* are considered locks. So is Disney's animated film *Hercules* and Columbia's *Men in Black*, a sci-fi spoof. Disney's *Con Air* has rivals worried. And traditional summer stars, such as Harrison Ford in Columbia's *Air Force One* and Mel Gibson in *The Conspiracy Theory*, are expected to sell their share of tickets along with John Travolta in Paramount's *Face Off*.

ICEBERGS AND ALIENS. The biggest gamble is *Titanic*, the joint venture between Paramount and Fox that insiders say may well live up to its title—in all the wrong ways. The film's budget has already grown to nearly \$180 million. Director James Cameron built elaborate sets and a 775-foot replica of the vessel. Insiders say Cameron is struggling to meet *Titanic*'s planned July 4 launch. Still, the film's trailer won raves at a recent gathering of theater owners in Las Vegas. Other movies with less-than-spectacular buzz include Fox's *Speed*, *Cruise Control* and *Alien Resurrection*.

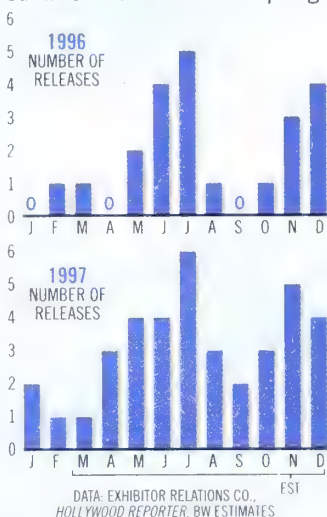
Some producers are hoping to find a safe haven for their movies by pushing back openings to the fall. Columbia has moved the \$120 million alien film it is making jointly with Disney, *Starship Trooper*, to November.

There's plenty of reason for movie makers to be hopeful, though. The \$1.1 billion collected at the box office in the first 11 weeks of 1997 puts the industry 25% ahead of last year. "We're heading for a record year," crows Michael W. Patrick, president of the Carmike Cinema Inc. chain. Good thing for those Hollywood spendthrifts.

By Ron Grover in Los Angeles

SPRING FEVER

Movie studios used to plan to release movies with budgets over \$100 million in the summer and yearend holidays. Now, summer movies start in spring.



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EDITED BY KELLEY HOLLAND

TWO BROKERS TIE THE KNOT

MARSH & MCLENNAN & Johnson & Higgins: It's no law firm, but the latest consolidation in the property-casualty industry. On Mar. 12, 152-year-old J&H, the No. 3 U.S. insurance broker, agreed to be acquired by No. 2 Marsh & McLennan for \$1.8 billion in cash and stock. The merger follows Aon's January acquisition of Alexander & Alexander. The consolidation among brokers, say industry analysts, stems from mergers among property-casualty insurers. The last few years have seen many such deals, including Travelers' buying Aetna's P&C business and the CNA-Continental Insurance merger. Brokers must seek efficiencies to

CLOSING BELL

DRUG HIGH

Investors are heartened by Warner-Lambert's new cholesterol reducer. After reports that Lipitor is winning up to 6% of new prescriptions two weeks after its debut, Warner-Lambert stock on Mar. 10 rose 5, to 88%. Warner-Lambert has shown that the drug is more potent than Merck's industry-leading Zocor and Bristol-Myers Squibb's Pravachol, both proven to prevent heart attacks. So far, Warner-Lambert has marketed Lipitor only to doctors.



live off shrinking commissions pegged to rates that have fallen for a decade.

CAN IBUPROFEN STOP ALZHEIMER'S?

IT'S NOT JUST FOR ACES AND pains. A new study shows that ibuprofen, the active ingredient in American Home Products' Advil and Bristol-Myers Squibb's Nuprin, may help prevent Alzheimer's disease. In a 14-year study at Johns Hopkins University, people who used ibuprofen over that period reduced the chance of getting Alzheimer's up to 60%. Higher levels of the drug seemed to offer more protection. But don't rush to the drugstore: Researchers warn that potential side effects, such as stomach pain and bleeding, are too serious to recommend widespread use.

IT'S A LITIGIOUS WORLD AFTER ALL

MICHAEL EISNER AND Jeffrey Katzenberg will meet in court in Los Angeles on Nov. 18. Katzenberg, Walt Disney's former studio chief, says he's owed \$250 million. Disney says Katzenberg's contract waived the disputed payments and asserts it will win when "all the facts are made public, minus the spin doctoring." Katzenberg lawyer Bertram Fields says he's eager to get Eisner on the stand and that former President Michael Ovitz' \$96 million severance package after 14 months "may be of some interest" to jurors judging the value of Katzenberg's decade-long tenure.

GE ISN'T COOLING ITS JETS

GENERAL ELECTRIC IS STILL propelling itself into the jet-engine servicing business. Af-

HEADLINER: WILLIAM JOHNSON

57 VARIETIES OF CHALLENGES

William Johnson is about to be handed a very full plate. H.J. Heinz's chief operating officer and heir apparent will head up a companywide restructuring that was to be unveiled on Mar. 14. The plan, which Heinz sources say involves thousands of job cuts and more than \$500 million in charges, is expected to return central control of Heinz's businesses—from tuna plants in Ghana to baby food factories in India—to headquarters in Pittsburgh.

Johnson's top challenge may be Heinz's \$1.5 billion Weight Watchers unit.



Johnson and CEO Anthony O'Reilly are putting Weight Watchers, which is earning only about \$10 million in the U.S., on a diet. To shed \$50 million in costs over two years, Weight Watchers will close 258 storefronts and move meetings back to rented spaces in churches and schools. Also, there's a new marketing campaign featuring Sarah Ferguson, former Duchess of York.

Weight Watchers has underperformed since 1990. If it stumbles again, Johnson may want to cross it off of Heinz's menu.

By Stephen Baker

ter winning contracts to service engines for USAir and Federal Express, GE agreed on Mar. 10 to buy Greenwich Air Services. It also said it will complete Greenwich's previously announced acquisition of UNC, whose main business is servicing military and corporate jet engines. The \$875 million deal will add some \$1.8 billion in annual revenues to GE's \$2.3 billion jet-engine service business. And it's further evidence of GE's corporate strategy to expand into services.

FEW AD DOLLARS ARE CAUGHT IN THE NET

ADVERTISING MAY BE THE great hope of content providers for making money on the Internet, but no one's getting rich yet. A report from market researcher Jupiter Communications tallies online ad revenues at just \$301 million for 1996. That's

less than the \$312 million Jupiter projected and just a microscopic portion of the ad business. Still, it's five times the estimate of 1995 revenues and Jupiter projects nearly \$1 billion in cyber ads in 2000 as Internet usage grows worldwide. Much visited sites such as Netscape Communications home page and search engine sites such as Yahoo! and Excite earned more than 25% of total ad spending. The biggest spenders? Microsoft, AT&T, and Excite.

ET CETERA...

- For the second quarter in a row, 360 Communications is predicting subpar earnings.
- BellSouth and IBM have a deal to expand BellSouth's Internet service.
- Sylvan Learning Systems is buying National Education for about \$638 million.
- MasterCard chief Eugene Lockhart will be retail banking head at Bank of America.

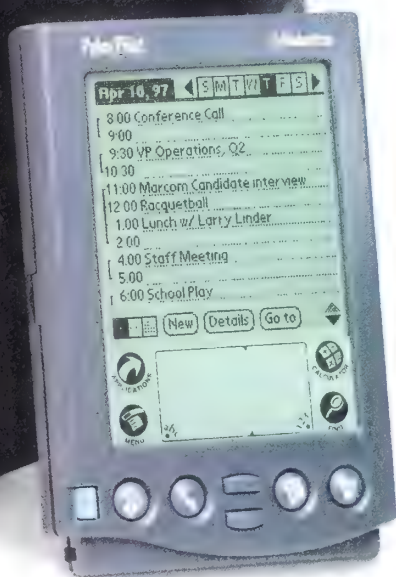
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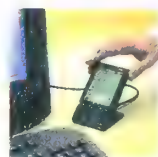
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Where ideas carry weight

EDITED BY OWEN ULLMANN

HOW LABOR'S CAMPAIGN BLITZ MADE THE GOP BLINK

Enraged Republicans vowed revenge last November when organized labor's \$35 million campaign blitz helped topple 118 GOP incumbents and nearly shifted control of the House to the Democrats. But lately, Republican pledges to go for a labor knockout have given way to targeted jabs. The reason: Many Republicans, spooked by the AFL-CIO's hardball tactics, don't want to alienate blue-collar constituents and some targets for defeat in 1998. "The unions didn't win the election, but they sure made some of our members nervous," admits one GOP staffer.

The Republicans' new strategy is to wage a stealth campaign against labor and avoid the direct assaults of 1995 that let Democrats tag the GOP as extremists out to harm working families. Gone from the '97 hit list are brash union-bashing items such as gutting the Occupational Safety & Health Administration, weakening the National Labor Relations Board, and repealing the Davis-Bacon Act of 1931, which props up wages on federal contracts. Instead, the GOP is rolling out general measures that thwart union goals while making the party look like it cares about typical wage-earners. "This is a pro-worker, family-friendly agenda," says Assistant Senate Majority Leader Don Nickles (R-Okla.).

PAYBACK. One example: The House plans to vote on Mar. 19 on a GOP bill that would give private-sector employees flexibility to take compensatory time off instead of overtime pay. Unions—which fear the plan would let companies coerce workers into choosing comp days instead of money—support President Clinton's plan to increase time off under the Family & Medical Leave Act of 1993. Still, labor officials are relieved that a more mellow GOP majority on Capitol Hill has backed off from postelection threats to wage war on unions. This is nothing compared to what they tried in the last

Congress," says AFL-CIO Legislative Director Peggy Taylor.

That's not to suggest Republicans will forgive and forget. The GOP plans to take some targeted shots, such as passing the business-backed Teamwork for Employees and Managers Act (TEAM). It would allow employers and workers to negotiate non-collective bargaining issues such as day care, flexible schedules, and productivity. The AFL-CIO fears that would open the door to company-dominated unions. "This is payback because of the work the unions did last election," says Senator Edward M. Kennedy (D-Mass.), a strong labor backer who's counting on a Presidential veto to block passage.



TED: Tough pro-union talk

The GOP's best opportunity to make labor sweat may come as Congress turns a spotlight on campaign-finance abuses. The Senate voted on Mar. 11 to broaden its hearings into fund-raising improprieties to include independent expenditures such as the '96 effort orchestrated by AFL-CIO President John J. Sweeney. Nickles is drafting a package that would make it harder for Sweeney to duplicate last year's drive. The plan would bar union leaders from using dues to pay for political activities without members' prior permission.

Although most Republicans support such targeted reprisals, a few firebrands are still calling for blood. Representative Jon Christensen (R-Neb.), a top union target in '96, is spearheading a frontal attack to force unions to disclose to members the percentage of money spent on politics. And Representative Cass Ballenger (R-N.C.), who is pushing the comp-time bill, says he won't give up. "If they [union leaders] shut their eyes, we'll run over them with a truck."

That's unlikely, since labor is not about to let its guard down. For now, both sides may have to settle for an uneasy standoff until their next showdown in 1998.

By Mary Beth Regan

CAPITAL WRAPUP

EXPORTERS PLAY DEFENSE

Jittery about Donorgate fallout, U.S. exporters are uniting to fight GOP efforts on Capitol Hill to curb government trade missions and kill export-promotion agencies. "Members of Congress listen, especially when companies employ people in their districts," says Small Business Exporters Assn. head E. Martin Duggan. For starters, the coalition—which includes the U.S. Chamber of Commerce and U.S.-Asian Business Council—is organizing a rally outside the White House.

NEWT'S FUTURE WORLD

► House Speaker Newt Gingrich (R-Ga.) has been mulling the future during his self-imposed retreat from public view. Meeting with conservative activists on Mar. 5, Gingrich circulated a three-page memo on "what the world would look like after 20 years of Republican domination of Congress." Among his conclusions: a minimalist government, with business freed from most regulations. Gingrich, says one conservative, resembled "an irrelevant college professor."

FROM AUSTIN TO WASHINGTON?

► Republican operatives say the word from Austin, Tex., is that Governor George W. Bush is making plans to seek the 2000 GOP Presidential nomination. "He definitely wants to go for it," says a Bush confidant. One sign, according to GOP sources: former U.S. Ambassador to Australia Melvin Sembler, a top Republican Party fundraiser who was finance chairman for former Tennessee Governor Lamar Alexander's 1996 White House bid, may be signing on with Bush.

MARKETS

THE RUSH TO RUSSIA



MOSCOW: A river of foreign cash has boosted the market 65% this year—on top of 127% in 1996

Despite economic woes and murky data, global investors are pouring in. Is the bubble set to burst?

Viktor M. Borovsky traveled half-way around the globe to savor one very sweet moment. Standing on the balcony of the New York Stock Exchange on the morning of Jan. 26, the Siberian utility executive beamed as the name of his company, Irkutskenergo, flashed by on an electronic ticker.

Borovsky is one of many Russians trekking to Wall Street these days to see their companies' names up in lights. Fourteen, including Irkutskenergo, have launched issues of American depositary receipts in the U.S., and officials at Bank of New York estimate that an additional 15 are in the pipeline. But that doesn't tell half the tale. In New York, London, Frankfurt, and of course Moscow, investors are swarming to buy Russian equities even in the face of rampant crime, corruption, and a 6% economic decline in 1996. Says Nancy Curtin, head of emerging markets for Baring Asset Management in Lon-

don: "We are committed to Russia."

Baring and other big global investors have poured \$1.2 billion into Russian equities since Jan. 1 alone, and have helped the Moscow market climb 65% this year on top of 127% in 1996 (chart). Investors are snapping up Russian corporate debt as well. What finally persuaded foreigners to dive in was President Boris N. Yeltsin's reelection and Russia's successful \$1 billion Eurobond offering last year. Also bolstering confidence was a decision by the World Bank's International Finance Corp. to add Russia to emerging-market indexes many fund managers use as a benchmark. Now, investors are pleased by signs the economy is stabilizing after five years of contraction.

EASY MONEY. Indeed, Yeltsin's decision on Mar. 11 to sack most of his Cabinet and bring reformer Anatoly B. Chubais back into the government was only the latest fodder for the bulls. They say this demonstrates that, despite his fragile health, Yeltsin is serious about the tax reforms and bankruptcy mea-

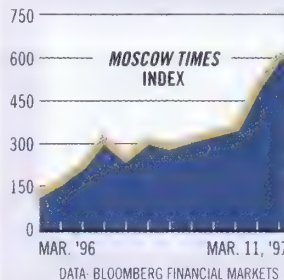
sures Russia needs to restart growth.

To be sure, Russia's sharp gains also are a product of easy money in the industrial world that is pumping up stock prices from Wall Street to Warsaw. Money is beginning to pour into a slew of Russian corporate Eurobonds, too. More than a few money managers now

worry that Russia is a bubble that could burst if interest rates rise in the U.S. and investors flee emerging markets. That is especially true for big petroleum, telephone, and utility stocks that foreigners have favored. However, the bulls insist that even a market correction would not dim Russia's prospects. They argue that Russia remains a bargain.

gain-priced, if risky, bet on future growth. That allows them to see past everything from impenetrable financial statements to crime. Says Craig S. Simons, chairman of Donaldson, Lufkin & Jenrette Inc.'s international investments banking group: "People are looking at the cheapness of assets. So if there is some corruption in oil? So what?"

HEADY DAYS FOR RUSSIAN STOCKS



S BUYING It started with hedge funds, which rushed in during the market's ear-
s. Now, many emerging-market mutual and pen-
ds are putting 2% to 7% of their portfolios into
More than \$1.2 billion has gone into Russia since
Domestic investors are piling in as well.

THEY'RE INVESTING Analysts and fund
managers argue
ource-rich Russia remains one of the cheapest
g markets. Yeltsin's reelection in 1996 has given
confidence economic reforms will continue. Falling
c interest rates and Russia's successful \$1 billion
id offering last fall also buoy investors' sentiment.

THEY'RE BUYING Twenty-nine Russian
companies have or
ues of American depository receipts. Many global
re going for such large, liquid ADR stocks as
a big petroleum producer. But attention is shifting
tries that haven't been as hot, including regional
l, pulp and paper, shipping, consumer products,
ngineering.

THE RISKS ARE The political situation
appears stable now but
et rocky if Yeltsin dies or is incapacitated. Delays
ting tax reforms could further restrain an economic
y. Most corporate managers still have little regard
rights of minority shareholders—especially foreign
nd after their big gains, some stocks are simply
ued and due for a correction.

DATA: BUSINESS WEEK

alk like that—as well as a plunge in
ds on Russian Treasury bills to 20%
n more than 200% last summer—
luring local investors into the stock
rket, too. As much as 20% of
scow's trading volume so far this
r has been generated by Russians
mselves, up from virtually zero a
r ago. But for the wealth created
the stock-market boom to trickle
n into the real economy, the reforms
tsin and foreign investors are seeking
have to speed up. Right
v, warns Renaissance
pital Group CEO Boris
dan: "Production contin-
to fall in many indus-
es, working-capital short-
s are rampant, and there
been no restructuring."
That's the case at Ir-
skenergo. Like tens of
usands of enterprises
oss Russia, it is squeezed
a vise of punitive tax
es and bills it can't col-
c. A third of its revenues
in cash. The rest are in
missory notes and barter.
pes Borovsky: "We took
only 27% of the money
ed to us in 1996, and

were supposed to pay
out 26% of our earn-
ings in taxes. If we
pay our taxes fully, we
have no money for
wages."

Irkutskenergo owes
its 22,000 employees
two months' back
wages. Workers have
also missed out on the
recent runup in their
company's share price.
When the company
was privatized, em-
ployees were given
51% of the shares.
But most of them did-
n't understand they
might appreciate, and
sold them. By the
time the company's
stock had nearly
tripled in January, to
30¢ a share—or \$15.75
per ADR—42% of the
company was foreign
owned. "Workers are
complaining," says
Borovsky.

But even amid the
complaints, the econ-
omy is showing early
signs of rebirth. Elec-

trical consumption, for example, rose
slightly in 1996, a possible harbinger of
rising industrial production. Moscow's
Brunswick Brokerage predicts that
Russian gross domestic product will
grow by 2% in 1997 and 5% in 1998,
driven by new investment in industry. If
Yeltsin is successful in cutting tax rates,
companies in the unofficial "shadow"
economy, particularly fast-growing ser-
vice firms, will begin to report earn-
ings, giving another boost to official GDP.

These early signs are leading many
investors to focus on Russia not only
as a way to buy into natural-resource
companies for a song but also as a play
on growth. That is leading them to put
their money into regional phone and
power companies such as Irkutskenergo.
By all rights, these companies should
bloom if the economy starts to move.
Yet their stocks have trailed behind the
more established Lukoil, Rostelecom,
and Unified Energy System.

The broadening of the market is caus-
ing investors to take a closer look at
fundamentals. Evaluated on the value
of its reserves, Russia's premier inte-
grated petroleum company, Lukoil,
trades at a 90% discount to foreign oil
firms. Nonetheless, the price-earnings
ratios of many blue chips and a few
second-tier telecom companies are now
double, or even triple, that of their for-
eign counterparts. The surge of foreign
cash has pushed Irkutskenergo's price-
earnings ratio, for instance, to an eye-
popping 71.5, compared with just 13.8
for the far more profitable Spanish util-
ity Endesa. And Stephen O'Sullivan,
head of research for MC Securities in
London, estimates that if Lukoil's me-
ager profits were restated in line with
Western standards, its price-earnings
ratio would be a robust 30, twice that of
some Western companies.

Still, as one of the most liquid and
best-known Russian stocks, Lukoil will
be in demand by big pension and mutu-
al funds that are entering Russia. Tele-
com issues, especially smaller ones,
should also stay hot. Earnings at re-
gional carriers such as Chelyabinsk
Svyzainform and Perm Uralsvyzainform
are growing at an annual rate of 15% to
20%, even after including the cost of
providing social services such as hous-
ing, kindergartens, and medical care.

Analysts believe these com-
panies will be able to turn
such functions over to the
government.

In fact, spotting such pos-
sible opportunities is be-
coming key to identifying
stocks that are on the verge
of taking off. Par Mellstrom,
research director at Bruns-
wick, thinks that oil issues
just coming to market, such
as Yukos, Sidanko, and Sib-
neft, are valued 40% to 80%
cheaper than high-flying
Lukoil and Surgutneftegaz
and could be among that
group.

Bank stocks, meanwhile,
are coming into vogue as



SMART PLAY? Regional phone companies may grow fast

high-profile lenders such as Inkombank and Menatep, itself the heart of a huge financial and industrial group, launch ADRs. But many analysts save the bulk of their praise for Sberbank, the former Soviet state savings institution, where Russians do everything from depositing their nest eggs to paying phone bills. With 34,000 offices and some 70% of all Russian bank deposits, Sberbank, still 51% owned by the central bank "is an enormous monolith that is making lots of money and investing it," says Taco Sieburgh Sjoerdsma, head of research at Moscow's United Financial Group. Early this year, foreigners began to snap up shares, considering them undervalued at \$45. By the end of February, the price had jumped to \$150, but it was still trading at a p-e of only 1.

STILL RISKY. Sberbank's spectacular rise shows how artificial Russian stocks can be. The bank's management and big outside shareholders want to maintain control by keeping the stock in the hands of domestic investors. So when foreign investors began hunting for shares, Russian brokerages started buying stock in their own names from Sberbank employees. To stop the practice, the bank has ordered employees not to sell shares. The bank can back that up with action because it controls its own register of shareholders, a common practice in Russia. "There is no uninterested party keeping track of shareholders," complains J. Mark Mobius, president of the Templeton Russia Fund.

Managers who maneuver to keep control are only one of the risks that remain in the market. Disclosure is improving, but Russian accounting still makes it hard to ascertain a company's real worth. The legal system provides insufficient protection for shareholders. Corporate governance remains dysfunctional. There's a shortage of experienced managers. And markets haven't started funneling capital to companies.

For now, global investors are willing to forgive such shortcomings. They may not do so indefinitely, especially if Russia's economic situation doesn't improve by summer. But for now, most are willing to give Yeltsin the benefit of the doubt. Now that Russia has joined the world of Eurobonds and ADRs, the country is becoming more subject to the demands of international capital than the diktats of former commissars. If that message sinks in deeply enough, Russia's bull still may have room to run.

By Patricia Kranz in Moscow and William Glasgall in New York, with Sharon Reier in Paris and Dave Lindorff in Hong Kong

HOW TO PLACE A BET ON THE WILD, WILD EAST



HERRING: Her fund has shot up, to \$35 million

As one of a crowd of portfolio managers following U.S. stocks for the mutual-fund unit of Dean Witter Reynolds Inc., Nancy Herring yearned for the adventure of working in an emerging economy. So when Moscow's Troika Dialog Asset Management beckoned in 1996, she recalls, "it was 'Go east, young woman.'" What Herring didn't count on was the Russian market exploding. "It has gone a hundred times faster than I ever thought it would," says Herring, 44.

Now co-manager of the Lexington Troika Dialog Russia Fund, the sole open-ended Russia mutual fund trading in the U.S., Herring has presided over a takeoff that's explosive even by the volatile standards of emerging markets. Since its launch last July, the fund's assets have grown from \$10 million to \$35 million. Still a bull even after the Moscow market's stunning climb, Herring insists that many privatized Russian companies are making a successful transition to capital-

ism. Two favorites: Chelyabenergo, the utility serving the city of Chelyabinsk, and Chelyabinsk Svyazinform, the local phone company. She is also eyeing some retailers.

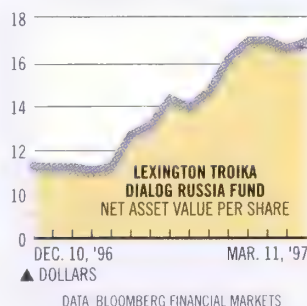
Herring insists on visiting companies before she invests. "I look for anecdotal evidence," says Herring, who relies on translators and English-speaking executives to help her spot deals. "If I'm looking at telephone companies, I use their phones. I ask people how hard it is to get one." Herring, a Barnard College graduate with a Columbia

University MBA in international finance, believes that the risks in investing in Russian companies are offset by low valuations. Still, she cautions that "there is a phase of restructuring that hasn't started yet—cost-cutting, reengineering, firing people."

Herring has stocked her fund with such oil and gas exporters as Lukoil and Surgutneftegaz, as well as Unified Energy System, a "very undervalued" electric utility that is her largest holding. She also believes that even after its recent growth, the Russian stock market still has potential. If Russia could only achieve a 5% economic growth rate, she argues, the value of its equity market could swell to \$400 billion in a decade. Getting there is going to require a huge commitment to tax and economic reform. But even just a few years ago, who would have thought that you could buy Russia through a mutual fund?

By William Glasgall in New York

A RAPID TAKEOFF





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FAT CITY ON THE THAMES

Bonuses at investment firms may shrink profits and boost risk

It's bonus time in the City of London, and at the wine bars favored by hot-shot traders, talk of the Magic Envelope fills the smoky air. A 25-year-old equities trader at one upscale hangout says his bonus was three times the size of last year's. He won't say how much he took home, but it was enough to buy a new country house—mostly with cash.

He's not alone. Industry watchers say 400 to 500 City bankers and traders got bonuses of \$1.6 million or more. On the whole, the fat bonuses are a sign of the City's health, reflecting the London Stock Exchange's rise to all-time highs in 1996—not to mention the hot merger business. The City earned a record \$1.8 billion in merger fees alone last year, compared with \$1.5 billion in 1995, according to Philip Healey, editor of the London-based *Acquisitions Monthly*.

TALENT SEARCH. But some senior bankers and analysts worry that the bonus froth may unduly encourage risk-taking and could even signal a top in the markets. They also fear that competition among banks for prime talent may be getting out of control, making employers vulnerable to a downturn. Fees for many of the banks' products and services, from interest-rate swaps to merger advice, are shrinking as the providers compete fiercely on price. Only by boosting volume can the banks keep up with growing staff costs. "A squeeze could occur if there is any slowdown in growth in the business," says John D. Leonard, European banking analyst at Salomon Brothers Inc. in London.

One reason for soaring compensation is intense competition for talent. In the past two years, several big banks, including Deutsche Bank, Barclays, and National Westminster Bank, have pushed aggressively into trading and other areas of investment banking. Their hunger for staff has driven up salaries and increased the use of so-called guaranteed bonuses, often covering two years or more, to lure people from rivals. Such bonuses lock banks

into high fixed costs, and even less profitable institutions must pony up or see experienced hands walk out.

Pay is also rising in London because as high finance grows increasingly global, the City and Wall Street are becoming one big market. Compensation in Britain has traditionally been lower and less bonus-driven than in New York, but now pay scales are converging.

In some cases compensation costs have hurt British banks' bottom line

bonuses. The weightiest came from the Bank of England, which is worried that some incentive schemes, including big lump-sum payments for hitting specific profit targets, may tempt traders to take excessive risks. In an in-house publication, one bank official wrote that huge bonuses might be creating a system of stars, "who may feel compelled to justify their status by taking greater risks in hope of making higher and higher profits."

SOBERING EFFECT. Senior bankers say that behind the BOE's warnings are fears that overpaying and risk-taking could damage the financial industry, aggravating its cycle of booms and busts. In a radio interview, central bank Deputy Governor Howard Davies warned that the bank might set higher capital requirements for banks with risky payment arrangements.



PARTY TIME

400 to 500 investment bankers won awards of \$1.6 million or more for 1996, say industry watchers

despite the healthy market. BZW, Barclays' investment wing, recently acknowledged that it paid \$72 million in "upgrading" costs in 1996. These include, among other things,

guarantees for new recruits and buy-outs for no-longer-wanted staff, says Barclays Chief Executive Martin Taylor. Such expenses contributed to BZW's 29% drop in operating profits, to \$326 million, for 1996. Taylor says that investments in people and systems are necessary for the bank to be competitive in the future and will begin paying off next year.

Taylor may be right. But there are signs of unease about the skyrocketing

This admonition has had a sobering effect. John R. H. Bond, group chief executive of HSBC Holdings PLC, says he is concerned about "excessive pay" in the City. He also says that HSBC is trying to curtail risk by cutting back on proprietary trading, the dealing that banks do for their own portfolios—an activity inherently riskier than taking positions for clients.

But how much City behavior will change remains to be seen. One top banker remarked that the Bank of England was "like a headmaster warning schoolboys to stop smoking." The City's highfliers aren't likely to pay much attention—at least until the market turns against them.

By Stanley Reed and Heidi Dawley in London



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COMMENTARY

By Steve Brull

TOKYO'S RIGGED MARKETS NEED REVOLUTION, NOT REFORM

Prime Minister Ryutaro Hashimoto was livid. At a press conference, he was queried about the new scandal at Nomura Securities Co. Nomura traders had pumped up the price of a stock so an investor with mob connections could profit. The money involved is small, less than \$600,000. But what outraged Hashimoto is that Nomura, Japan's most powerful securities firm by far, had played ball with the *yakuza* before, when it helped a mob boss

have suspended business with Nomura. Its shares have fallen over 11% since the scandal broke on Mar. 6.

Yet if the past is any guide, very little will change. Look at what has happened since 1991. Then, Nomura's top two execs, Chairman Setsuya Tabuchi and President Yoshihisa Tabuchi (no relation), resigned. But Nomura kept its hammerlock on the business, and the self-imposed penance proved largely ceremonial. By 1995, the Tabuchis' rehabilitation

was complete, and they returned to the board.

Just as important, authorities have done little to curb the *sokaiya*, racketeers with *yakuza* links who meddle in the markets and extort payments in exchange for not disrupting shareholder meetings.

They are allegedly part of the latest scandal. "Dealing with the *sokaiya* is a daily occurrence," says an ex-Nomura staffer.

Scams aren't unique to Japan. But at least on Wall Street, many have suffered mightily for their missteps. John H. Gutfreund, ex-chairman of Salomon Brothers Inc., and two other top execs paid \$40 million to settle a lawsuit after the firm's 1991 Treasury auction scandal. Drexel Burnham

Lambert Inc. disintegrated under the pressure of a government probe. Regulators closed Daiwa Bank Ltd.'s New York branch last year and fined it \$340 million for hiding \$1 billion in bond-trading losses.

TAX BONUS. In contrast, Japan's Security & Exchange Surveillance Commission is thinly staffed and has nothing like the clout of Washington's Securities & Exchange Commission. And local law treats many offenses lightly. If committed in Japan, Daiwa's deception would have drawn a fine of less than \$8,500. Daiwa even talked Tokyo tax authorities into letting it claim the U.S. fine as a loss. That ruling should lower its 1996 taxes by more than \$100 million.

Much tougher oversight is needed as Japan approaches a redrawing of its financial markets. In 1998, the business barriers between banks and brokerages should fall, along with commissions on large-lot stock trading. So foreign firms could lure away clients who don't like Nomura's prices or trading practices.

With deregulation coming, the ruling party proposes to set up a new watchdog agency to replace the SESC. This group would be separate from the Finance Ministry, which has long put the interests of the financial sector before those of the investing public. But ex-MOF staffers are expected to run it, and it will have no added powers or expanded staff to prosecute financial crimes.

That's hardly the kind of body that can root out mob influence and ensure market transparency. Then again, that may be the point: Set up a weak commission that just pretends to police the markets. If that's the case, Hashimoto's deregulation won't create the modern capital markets Japan needs. And soon, another Prime Minister will wonder aloud why scandal is rocking the securities business.

As long as securities laws do not provide for independent oversight and real punishments, Japanese and foreign investors will shy away

make a stock killing in 1991. "Why do such things keep happening?" Hashimoto demanded.

No doubt Hashimoto was genuinely irate, but he shouldn't be surprised. He knows why. These scams keep happening because they are part of the system—and because no one in government has made a serious effort to punish wrongdoers. "Corruption is endemic," said R. Taggart Murphy, an independent financial analyst. "These things will continue until you get a revolution." The scandal underscores the need for Hashimoto's proposed financial reforms. But if this reform fails, many foreign institutions and individual Japanese will avoid a market they suspect is rigged.

Nomura will not escape censure entirely. It faces criminal charges, and President Hideo Sakamaki will resign, along with the directors who oversaw the illegal trading. Many major Japanese and foreign institutions, including the California Public Employees' Retirement System pension fund,



NOMURA CEO SAKAMAKI: He and others will resign

Brull tracks Japan's financial markets.



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EDITED BY JOHN TEMPLEMAN

WILL BORIS AND BILL CATCH A CHILL IN HELSINKI?

When President Bill Clinton and Russian President Boris Yeltsin meet in Helsinki on Mar. 19-20, their summit could quickly turn into surreal theater. Behind the rhomies and bear hugs, both men will hang tough on issues from NATO enlargement to arms control. Because of what their domestic audiences demand, neither can "do what it would take to keep the other party happy," says Charles A. Kupchan, senior fellow at the Council on Foreign Relations. Yeltsin, bouncing back with a repaired heart and a government shakeup, has to prove that he can defend Mother Russia against NATO advances. Clinton can't afford to cave in to Russia's lengthy list of demands, including a virtual veto on future NATO deployment and enlargement. It could make him look weak and cost him conservative support he will need when the Senate votes on offering NATO membership to Poland, Hungary, and the Czech Republic.

A fumbled summit could produce a new chill in relations between the West and Russia. A brutal rebuff to Yeltsin risks "sending U.S.-Russian relations into a tailspin," warns Arnold Kanter, senior associate at the Council for International Policy. Adds Andrei Kortunov, president of the Russian Research Foundation: "[Yeltsin] cannot afford to come back to Moscow with empty hands."

CLINTON'S PACKAGE. In strictly economic terms, that won't open. Clinton will be offering Yeltsin a major package of Export-Import Bank credits and Overseas Private Investment Corp. (OPIC) loan guarantees. He'll also be promising help in persuading European Union countries to open their markets to Russian exports and support for Russian membership in the Geneva-based World Trade Organization as carrots to complement further Russian economic reforms.

But on other issues, Yeltsin won't get much of what he

wants. Clinton's spinmeisters are forecasting no major agreements—only "steady progress" at most—on a NATO-Russia charter and a variety of arms control topics. Besides, NATO's key Madrid ministerial meeting isn't until July, so it's still too soon for either leader to make significant concessions.

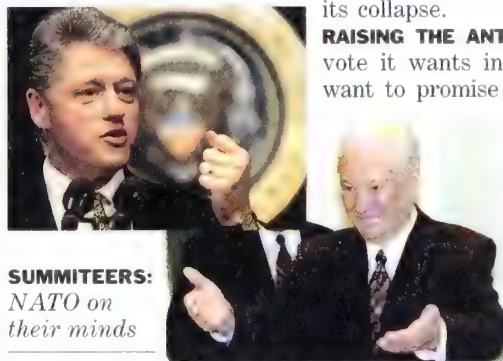
Some forward movement is possible, of course. The U.S. may go part way toward meeting Russia's demand that nuclear weapons should not be deployed in new NATO members' territories. The two sides might agree also on changes in a 1990 pact on deployment of conventional forces in Europe, negotiated with the former Soviet Union and obsolete since its collapse.

RAISING THE ANTE. But the U.S. will refuse Russia the vote it wants in NATO deliberations. The U.S. doesn't want to promise a long delay before a second round of NATO expansion. Also, strategic arms control talks could become a source of friction. Russia wants to begin negotiating START 3, a treaty to cut nuclear arsenals. But the U.S. insists Russia should first ratify the predecessor START 2 treaty to show its good faith.

Russia could raise the ante considerably with diplomatic moves of its own. It could try, for instance, to intimidate the Baltics and other nations that might seek to join NATO. And it could move closer to China and even nations the West considers pariahs. "Russia is already feeling itself much freer in its contacts with countries such as Iran and Iraq," warns Sergei Kolmakov, director of the FOND Politika, a Moscow think tank close to the government.

With such saber rattling already starting, Helsinki may be a success if Clinton simply avoids any worsening in relations with Russia. He needs to bolster Yeltsin—but without giving away the store.

By Stan Crock in Washington and Patricia Kranz in Moscow



SUMMITTEERS:
NATO on
their minds

GLOBAL WRAPUP

GERMAN MINERS REVOLT

Subsidies to German coal mines may endanger Chancellor Helmut Kohl's plans for radical tax cuts in 1998. Kohl wants to slash the handouts—which the government claims cost more than 76,000 a year per miner—by 60% by 2005. But striking miners are fighting the cuts, which are aimed at helping to finance lower taxes.

The opposition Social Democratic Party (SPD) is blocking tax legislation until Kohl settles with the miners' union. He needs SPD help, since it con-

trols the Bundesrat, the upper house of parliament. But if he compromises, his scope for tax cuts will be reduced. Germany's overburdened economy risks remaining trapped in a vicious circle of high taxes and high outlays.

SWISSAIR'S AMERICAN CAPTAIN

► Swissair, long a bastion of Swiss corporate culture, will soon get an American pilot. At the start of 1998, Jeffrey Katz, a 17-year American Airlines Inc. veteran, will become CEO. As co-pilots, he'll have two Britons hired from British Airways PLC.

Their mission is to help Swiss turnaround specialist Philippe Bruggisser, who will remain president of Swissair's holding company, SairGroup. Bruggisser is trying to get the group back in the black after losses of \$110 million in 1995. Since an attempt to forge a global alliance with KLM Royal Dutch Airlines and Northwest Airlines Inc. fell apart four years ago, the airline has been in turbulence. Now Swissair may have to cut free from Belgium's loss-making Sabena World Airlines, in which it bought a 49.5% stake in 1995.

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CONTRAINDICATIONS: Hypersensitivity to any component of this medication. **Active liver disease or unexplained, persistent elevations in liver function tests (see WARNINGS: Pregnancy and Lactation).** Active alcoholism is a contraindication to the use of lipid-lowering drugs during pregnancy. Pravastatin should have little impact on the outcome of long-term therapy of primary hypercholesterolemia. Cholesterol and other products of cholesterol biosynthesis are essential components for fetal development (including synthesis of steroids and cell membranes). Since HMG-CoA reductase inhibitors decrease cholesterol synthesis and possibly the synthesis of other biologically active substances derived from cholesterol, they may cause fetal harm when administered to pregnant women. Therefore, HMG-CoA reductase inhibitors are contraindicated during pregnancy and in nursing mothers. **Pravastatin should be administered to women of childbearing age only when such patients are highly unlikely to conceive and have been informed of the potential hazards.** If the patient becomes pregnant while taking this class of drug, therapy should be discontinued and the patient apprised of the potential hazard to the fetus. **WARNINGS: Liver Enzymes—**HMG-CoA reductase inhibitors, like some other lipid-lowering therapies, have been associated with uncommon but serious elevations of liver transaminase levels. Increases of ALT (AST) values to more than 3 times the upper limit of normal occurring on 2 or more (not necessarily sequential) occasions have been reported in 1.3% of patients treated with pravastatin in the US over an average period of 18 months. These abnormalities were not associated with cholestasis and did not appear to be related to treatment duration. In those patients in whom these abnormalities were believed to be related to pravastatin and who were discontinued from therapy, the transaminase levels usually fell slowly to pretreatment levels. These biochemical findings are usually asymptomatic although worldwide experience indicates that anorexia, weakness, and/or abdominal pain may also be present in rare patients. **It is recommended that liver function tests be performed before the initiation of treatment, at 6 and 12 weeks after initiation of therapy or elevation in dose, and periodically thereafter (e.g., semiannually).** Patients who develop increased transaminase levels should be monitored with a second liver function evaluation to confirm the finding and be followed thereafter with frequent liver function tests until the abnormalities return to normal. Should an increase in AST or ALT of three times the upper limit of normal or greater persist, withdrawal of pravastatin therapy is recommended. Active liver disease or unexplained transaminase elevations are contraindications to the use of pravastatin (see **CONTRAINDICATIONS**). Caution should be exercised when pravastatin is administered to patients with a history of liver disease or heavy alcohol ingestion (see **CLINICAL PHARMACOLOGY: Pharmacokinetics/Metabolism**). Such patients should be closely monitored, started at the lower end of the recommended dosing range, and titrated to the desired therapeutic effect. **Skeletal Muscle—Rare cases of rhabdomyolysis with acute renal failure secondary to myoglobinuria have been reported with pravastatin and other drugs in this class.** Uncomplicated myalgia has also been reported in pravastatin-treated patients (see **ADVERSE REACTIONS**). Myopathy, defined as muscle aching or muscle weakness in conjunction with increases in creatine phosphokinase (CPK) values to greater than 10 times the upper limit of normal, was rare (< 0.1%) in pravastatin clinical trials. Myopathy should be considered in any patient with diffuse myalgias, muscle tenderness or weakness, and/or marked elevation of CPK. Patients should be advised to report promptly unexplained muscle pain, tenderness or weakness, particularly if accompanied by malaise or fever. **Pravastatin therapy should be discontinued if markedly elevated CPK levels occur or myopathy is diagnosed or suspected.** Pravastatin therapy should also be temporarily withheld in any patient experiencing an acute or serious condition predisposing to the development of renal failure secondary to rhabdomyolysis, e.g., sepsis; hypotension; major surgery; trauma; severe metabolic, endocrine, or electrolyte disorders; or uncontrolled epilepsy. The risk of myopathy during treatment with another HMG-CoA reductase inhibitor is increased with concurrent therapy with erythromycin, cyclosporine, niacin, or fibrates. However, neither myopathy nor significant increases in CPK have been observed in patients receiving pravastatin in combination with erythromycin (24 renal and 76 cardiac) treated for up to two years concurrently with pravastatin 10-40 mg and cyclosporine. Some of these patients also received other concomitant immunosuppressive therapies. In one single-dose study, pravastatin levels were found to be increased in cardiac transplant patients receiving cyclosporine. Further, in clinical trials involving small numbers of patients who were treated concurrently with pravastatin and niacin, there were no reports of myopathy. Also, myopathy was not reported in a trial of combination pravastatin (40 mg) and gemfibrozil (1200 mg/day), although 4 of 75 patients on the combination showed marked CPK elevations versus one of 73 patients receiving placebo. There was a trend toward more frequent CPK elevations and patient withdrawals due to musculoskeletal symptoms in the group receiving combined treatment as compared with the groups receiving placebo, gemfibrozil, or pravastatin monotherapy (see **PRECAUTIONS: Drug Interactions**). The use of fibrates alone may occasionally be associated with myopathy. The combined use of pravastatin and fibrates should be avoided unless the benefit of further reductions in lipid levels is likely to outweigh the increased risk of this drug combination. **PRECAUTIONS: General—**Pravastatin may elevate creatine phosphokinase and transaminase levels (see **ADVERSE REACTIONS**). This should be considered in the differential diagnosis of chest pain in a patient on therapy with pravastatin. **Homozygous Familial Hypercholesterolemia.** Pravastatin has not been evaluated in patients with rare homozygous familial hypercholesterolemia. In this group of patients, it has been reported that HMG-CoA reductase inhibitors are less effective because the patients lack functional LDL receptors. **Renal Insufficiency:** A single 20 mg oral dose of pravastatin was administered to 24 patients with varying degrees of renal impairment (as determined by creatinine clearance). No effect was observed on the pharmacokinetics of pravastatin or its 3 α -hydroxy isomeric metabolite (30, 31, 906). A small increase was seen in mean AUC values and half-life ($t_{1/2}$) for the inactive enantiomeric ring hydroxyisomer (30, 31, 945) in this small sample size, the dosage administered, and the degree of individual variability, patients with renal impairment who are receiving pravastatin should be closely monitored. **Information for Patients—**Patients should be advised to report promptly unexplained muscle pain, tenderness or weakness, particularly if accompanied by malaise or fever. **Drug Interactions—**Immunosuppressive Drugs, Gemfibrozil, Niacin (Nicotinic Acid), Erythromycin: See **WARNINGS: Skeletal Muscle**. **Antipyrine:** Since concomitant administration of pravastatin had no effect on the clearance of antipyrine, interactions with other drugs metabolized via the same hepatic cytochrome isozymes are not expected. **Cholestyramine/Colestipol:** Concomitant administration resulted in an approximately 40 to 50% decrease in the mean AUC of pravastatin. However, when pravastatin was administered 1 hour before or 4 hours after cholestyramine or 1 hour before colestipol and a standard meal, there was no significant decrease in bioavailability or therapeutic effect. (See **DOSE AND ADMINISTRATION**). **Warfarin:** In a study involving 10 healthy male subjects given pravastatin and warfarin concomitantly for 6 days, bioavailability parameters at steady state for pravastatin (parent compound) were not altered. Pravastatin did not alter the plasma protein-binding of warfarin. Concomitant dosing did increase the AUC and C_{max} of warfarin but did not produce any changes in its anticoagulant action (i.e., no increase was seen in mean prothrombin time after 6 days of concomitant therapy). However, bleeding and extreme prolongation of prothrombin time has been reported with another drug in this class. Patients receiving warfarin-type anticoagulants should have their prothrombin times closely monitored when pravastatin is initiated or the dosage of pravastatin is changed. **Cimetidine:** The AUC₀₋₁₂ for pravastatin when given with cimetidine was not significantly different from the AUC for pravastatin when given alone. A significant difference was observed between the AUC's for pravastatin when given with cimetidine compared to when administered alone. **Digoxin:** In a crossover study involving 18 healthy male subjects given pravastatin and digoxin concurrently for 9 days, the bioavailability parameters of digoxin were not affected. The AUC of pravastatin tended to increase, but the overall bioavailability of pravastatin plus its metabolites 30, 31, 906 and 30, 31, 945 was not altered. **Cyclosporine:** Some investigators have measured cyclosporine levels in patients on pravastatin, and to date, these results indicate no clinically meaningful elevations in cyclosporine levels. In one single-dose study, pravastatin levels were found to be increased in cardiac transplant patients receiving cyclosporine. **Gemfibrozil:** In a crossover study in 20 healthy male volunteers given concomitant single doses of pravastatin and gemfibrozil, there was a significant decrease in urinary excretion and protein binding of pravastatin. In addition, there was a significant increase in AUC, C_{max}, and T_{max} for the pravastatin metabolite 30, 31, 906. Combination therapy with pravastatin and gemfibrozil is generally not recommended. **Interaction with aspirin:** In a study involving 10 healthy male subjects, there were no statistically significant differences in bioavailability when pravastatin (10 mg) and aspirin (100 mg) were administered together. **Other Drugs:** During clinical trials, no noticeable drug interactions were reported when PRAVACHOL was added to: diuretics, antihypertensives, digitalis, ACE inhibitors, calcium channel blockers, beta-blockers, or nitroglycerin. **Endocrine Function—**HMG-CoA reductase inhibitors interfere with cholesterol synthesis and lower circulating cholesterol levels and, as such, might theoretically blunt adrenal or gonadal steroid hormone production. Results of clinical trials with pravastatin in males and post-menopausal females were inconsistent with regard to possible effects of the drug on basal steroid hormone levels. In a study of 21 males, the mean testosterone response to human chorionic gonadotropin was significantly reduced ($p < 0.004$) after 16 weeks of treatment with 40 mg of pravastatin. However, the percentage of patients showing a >40% decrease in plasma testosterone after 16 weeks of treatment was not statistically significant. In a crossover study involving 18 healthy male subjects, the effects of HMG-CoA reductase inhibitors on spermatogenesis and fertility have not been studied in adequate numbers of patients. The effects, if any, of pravastatin on the pituitary-gonadal axis in pre-menopausal females are unknown. Patients treated with pravastatin who display clinical evidence of endocrine dysfunction should be evaluated appropriately. Caution should also be exercised if an HMG-CoA reductase inhibitor or other agent used to lower cholesterol levels is administered to patients also receiving other drugs (e.g., ketoconazole, spironolactone, cimetidine) that may diminish the levels or activity of steroid hormones. **CNS Toxicity—**CNS vascular lesions, characterized by perivascular hemorrhage and edema and mononuclear cell infiltration of perivascular spaces, were seen in dogs treated with pravastatin at a dose of 25 mg/kg/day, a dose that produced a plasma drug level about 50 times higher than the mean drug level in humans taking 40 mg/kg/day. Similar vascular lesions have been observed with several other drugs in this class. A chemically similar drug in this class produced optic nerve degeneration (Wallerian degeneration of retinogeniculate fibers) in clinically normal dogs in a dose-dependent fashion starting at 60 mg/kg/day, a dose that produced mean plasma drug levels about 30 times higher than the mean drug level in humans taking the highest recommended dose (as measured by total enzyme inhibitory activity). This same drug also produced vestibulocochlear Wallerian-like degeneration and retinal ganglion cell chromatolysis in dogs treated for 14 weeks at 180 mg/kg/day, a dose which resulted in a mean plasma drug level similar to that

seen with the 60 mg/kg/day dose. **Carcinogenesis, Mutagenesis, Impairment of Fertility—**In a 2-year study in rats fed pravastatin at doses of 10, 30, or 100 mg/kg body weight, there was an increased incidence of hepatocellular carcinomas in males at the highest dose ($p < 0.01$). Although rats were given up to 12 times the human dose (HD) on a mg/kg body weight basis, serum drug levels were only 6 to 10 times higher than those measured in humans given 40 mg pravastatin as measured by AUC. The oral administration of 10, 30, or 100 mg/kg (producing plasma drug levels approximately 0.5 to 5 times the human drug levels at 40 mg) of pravastatin to mice for 22 months resulted in a statistically significant increase in the incidence of malignant lymphomas in treated females when all treatment groups were pooled and compared to control ($p < 0.05$). The incidence was not dose-related and male mice were not affected. A chemically similar drug in this class was administered to mice for 72 weeks at 25, 100, and 400 mg/kg body weight, which resulted in mean serum drug levels approximately 3, 15, and 33 times higher than the mean human serum drug concentration (as total inhibitory activity) after a 40 mg oral dose. Liver carcinomas were significantly increased in high-dose females and mid- and high-dose males, with a maximum incidence of 90 percent in males. The incidence of adenomas of the liver was significantly increased in mid- and high-dose females. Drug treatment also significantly increased the incidence of lung adenomas in mid- and high-dose males and females. Adenomas of the eye Harderian gland (a gland of the eye of rodents) were significantly higher in high-dose males than in controls. No evidence of mutagenicity was observed *in vitro*, with or without rat-liver metabolic activation, in the following studies: microbial mutagen tests, using mutant strains of *Salmonella typhimurium* or *Escherichia coli*; a forward mutation assay in L5178Y TK +/− mouse lymphoma cells; a chromosomal aberration test in hamster cells; and a gene conversion assay using *Saccharomyces cerevisiae*. In addition, there was no evidence of mutagenicity in either a dominant lethal test in mice or a micronucleus test in mice. In a study in rats, with daily doses up to 500 mg/kg, pravastatin did not produce any adverse effects on fertility or general reproductive performance. However, in a study with another HMG-CoA reductase inhibitor, there was decreased fertility in male rats treated for 34 weeks at 25 mg/kg body weight, although this effect was not observed in a subsequent fertility study when this same dose was administered for 7 weeks (the entire cycle of spermatogenesis, including epididymal maturation). In rats treated with this same reductase inhibitor at 180 mg/kg/day, seminiferous tubule degeneration (necrosis and loss of spermatogenic epithelium) was observed. Although not used with pravastatin, two similar drugs in this class caused drug-related testicular atrophy, decreased spermatogenesis, spermatocytic degeneration, and giant cell formation in dogs. The clinical significance of these findings is unclear. **Pregnancy: Pregnancy Category X.** See **CONTRAINDICATIONS**. Safety in pregnant women has not been established. Pravastatin was not teratogenic in rats at doses up to 1000 mg/kg daily or in rabbits at doses of up to 50 mg/kg daily. These doses resulted in 20x (rabbit) or 240x (rat) the human exposure based on surface area (mg/meter²). However, in studies with another HMG-CoA reductase inhibitor, skeletal malformations were observed in rats and mice. There has been one report of severe congenital bone deformity, tracheo-esophageal fistula, and anal atresia (Vater association) in a baby born to a woman who took another HMG-CoA reductase inhibitor with dextroamphetamine sulfate during the first trimester of pregnancy. PRAVACHOL (pravastatin sodium) should be administered to women of child-bearing potential only when such patients are highly unlikely to conceive and have been informed of the potential hazards. If the woman becomes pregnant while taking PRAVACHOL (pravastatin sodium), it should be discontinued and the patient advised again as to the potential hazards to the fetus. **Nursing Mothers—**A small amount of pravastatin is excreted in human breast milk. Because of the potential for serious adverse reactions in nursing infants, women taking PRAVACHOL should not nurse (see **CONTRAINDICATIONS**). **Pediatric Use—**Safety and effectiveness in individuals less than 18 years old have not been established. Hence, treatment in patients less than 18 years old is not recommended at this time. **ADVERSE REACTIONS:** Pravastatin is generally well tolerated; adverse reactions have usually been mild and transient. In 4-month long placebo-controlled trials, 1.7% of pravastatin-treated patients and 1.2% of placebo-treated patients were discontinued from treatment because of adverse experiences attributed to study drug therapy; this difference was not statistically significant. In long-term studies, the most common reasons for discontinuation were asymptomatic serum transaminase increases and mild, non-specific gastrointestinal complaints. During clinical trials the overall incidence of adverse events in the elderly was not different from the incidence observed in younger patients. **Adverse Clinical Events—**All adverse clinical events (regardless of attribution) reported in more than 2% of pravastatin-treated patients in the placebo-controlled trials are identified in the table below; also shown are the percentages of patients in whom these medical events were believed to be related to or possibly related to the drug.

Body System/Event	All Events		Events Attributed to Study Drug	
	Pravastatin (N = 900) %	Placebo (N = 411) %	Pravastatin (N = 900) %	Placebo (N = 411) %
Cardiovascular				
Cardiac Chest Pain	4.0	3.4	0.1	0.0
Dermatologic Rash	4.0*	1.1	1.3	0.9
Gastrointestinal				
Nausea/Vomiting	7.3	7.1	2.9	3.4
Diarrhea	6.2	5.6	2.0	1.9
Abdominal Pain	5.4	6.9	2.0	3.9
Constipation	4.0	4.1	2.4	5.1
Flatulence	3.3	3.6	2.7	3.4
Heartburn	2.9	1.9	2.0	0.7
General				
Fatigue	3.8	3.4	1.9	1.0
Chest Pain	3.7	1.9	0.3	0.2
Influenza	2.4*	0.7	0.0	0.0
Musculoskeletal				
Localized Pain	10.0	9.0	1.4	1.5
Myalgia	2.7	1.0	0.6	0.0
Nervous System				
Headache	6.2	3.9	1.7*	0.2
Dizziness	3.3	3.2	1.0	0.5
Renal/Genitourinary				
Urinary Abnormality	2.4	2.9	0.7	1.2
Respiratory				
Common Cold	7.0	6.3	0.0	0.0
Rhinitis	4.0	4.1	0.1	0.0
Cough	2.6	1.7	0.1	0.0

*Statistically significantly different from placebo

In the Pravastatin Primary Prevention Study (West of Scotland Randomized Prevention Study) (see **CLINICAL PHARMACOLOGY: Clinical Studies**) involving 6595 patients treated with PRAVACHOL (pravastatin sodium) (N = 3302) or placebo (N = 3293) the adverse event profile in the pravastatin group was comparable to that of the placebo group over the median 4.8 years of the study. The following effects have been reported with drugs in this class; not all the effects listed below have necessarily been associated with pravastatin therapy: **Skeletal:** myopathy, rhabdomyolysis, arthralgia. **Neurological:** dysfunction of certain cranial nerves, progression of cataracts (lens opacities), ophthalmoplegia, tremor, vertigo, memory loss, anesthesia, peripheral neuropathy, peripheral nerve palsy, anxiety, insomnia, depression. **Hypersensitivity Reactions:** An apparent hypersensitivity syndrome has been reported rarely which has included one or more of the following features: anaphylaxis, angioedema, lupus erythematosus-like syndrome, polymyalgia rheumatica, dermatomyositis, vasculitis, purpura, thrombocytopenia, leukopenia, hemolytic anemia, positive ANA, ESR increase, eosinophilia, arthritis, arthralgia, urticaria, asthenia, photosensitivity, fever, chills, flushing, malaise, dyspnea, toxic epidermal necrolysis, erythema multiforme, including Stevens-Johnson syndrome. **Gastrointestinal:** pancreatitis, hepatitis, including chronic active hepatitis, cholestatic jaundice, fatty change in liver, and, rarely, cirrhosis, fulminant hepatic necrosis, and hepatoma; anorexia, vomiting. **Skin:** alopecia, pruritus. A variety of skin changes (e.g., nodules, discoloration, dryness of skin/mucous membranes, changes to hair/nails) have been reported. **Reproductive:** gynecostasia, loss of libido, erectile dysfunction. **Eye:** myopathy and rhabdomyolysis (with or without acute renal failure) have been reported when another HMG-CoA reductase inhibitor was used in combination with immunosuppressive drugs, gemfibrozil, erythromycin or lipid-lowering doses of niacin. Concomitant therapy with HMG-CoA reductase inhibitors and these agents is generally not recommended. (See **WARNINGS: Skeletal Muscle** and **PRECAUTIONS: Drug Interactions**). **OVERDOSEAGE:** To date, there are two reported cases of overdose with pravastatin, both of which were asymptomatic and not associated with clinical laboratory abnormalities. If an overdose occurs, it should be treated symptomatically and supportive measures should be instituted as required. **CAUTION: Federal (USA) law prohibits dispensing without prescription.**

U S WEST CAN'T TAKE ITS EYES OFF TV

The Baby Bell plows into cable as rivals scale back



Bell Atlantic Corp. left Tele-Communications Inc. at the altar in 1994. Nynex Corp.'s \$1.2 billion investment in Viacom Inc., made in 1993, has been a strategic bust. And U S West, the consortium of phone companies that intended to offer TV content over wires they owned, is being scattered. Indeed, most of the boasts by cable and telephone companies about the powerful convergence of the two industries has faded. It is now just another stale fad from the early 1990s. When there's U S West Inc. Based in Englewood, Colo., the Baby Bell, which provides phone service to about 10 million customers in 14 western states, has never moved its sights from the goal it set in 1992: to become a leader in cable television, offering customers in selected cities highly integrated telephone, data, and TV services with full interactive capabilities. Even as most of their peers have de-

traded entity that holds the bulk of U S West's cable assets. As other cable companies struggle with financial constraints and other Baby Bells focus on getting into long distance, U S West's strategy sets it apart. Lillis relishes running the only company hewing to this course: "We'll have a lot of years without much competition."

And U S West's cable holdings could soon grow to rival industry leader TCI's. In 1993, U S West paid \$2.6 billion for a 25.5% stake in Time Warner Entertainment Co., a subsidiary of Time Warner

Inc. that owns the bulk of its cable systems, its Warner Bros. movie studio, and its Home Box Office pay-cable network. The relationship with Time Warner has long since soured over control and other issues, and the two companies now are negotiating a parting of the ways that will likely hand control of some portion of Time Warner Entertainment's roughly 10 million subscribers to U S West.

HURDLE. The deal's structure is certain to be nightmarishly complicated. U S West's stake now is valued at more than \$4 billion, and the company is keen to get control of the Time Warner systems. The big stumbling block in reaching a deal is how much U S West

After raising \$4.1 billion in debt recently, U S West can spend cash in amounts that its competitors can only dream about

U S WEST IS NOW THE COUNTRY'S THIRD-LARGEST CABLE OPERATOR

veloped deep doubts about whether it makes sense for a phone company to own cable systems, U S West executives have made the company the third-largest cable operator in the U.S. All told, U S West has spent \$12.5 billion to buy systems with nearly 5 million subscribers. And it plans to spend at least \$3 billion more by the end of 1999 to make these systems the most sophisticated in the country. "This is the right time to invest in a very powerful network," says Charles M. Lillis, president of U S West Media Group, a separately

will be willing to shoulder of Time Warner Entertainment's nearly \$6 billion debt load. "Our balance sheet is not for rent," says U S West Chairman Richard D. McCormick. "We're not going to be the debt solution for Time Warner."

U S West Media Group became a separately traded stock in late 1995, and its shares have managed to remain fairly flat since then, vs. an overall downturn in the stock prices of other cable companies. But the company's rising debt load and interest payments have forced its once robust earnings



LILLIS: "We'll have years without much competition"

into the red. For now, though, there are few worries. "This is a very healthy cable company," says Geoffrey Johnson, an analyst with investment group Gabelli & Co. "They can definitely afford to take some of the Time Warner debt if it came with the right cable assets."

As a major cable company, U S West has a tremendous edge over its competitors: It is well capitalized thanks to its core phone business and has massive clusters of customers in highly desirable areas. Following its recent acquisition of Continental Cablevision Inc., U S West now sends either phone or cable bills to nearly 20% of America's homes, many in such large urban areas as Boston, Chicago, Atlanta, and Los Angeles. With Time Warner's assets, the company would virtually blanket Ohio, Florida, and New England, giving it access to 60 of the top 100 U.S. markets.

BIG SPENDER. With those kinds of regional clusters, U S West has the geographic concentration of subscribers as well as the money necessary to do what giants such as TCI can't manage—roll out expensive new services, such as cable modems and digital settop boxes that can deliver up to 500 channels of TV and movies on demand. Then there's the big prize: With wires already in place, U S West could go toe to toe with other telephone companies in local and long-distance service far from its own service territory.

To get there, U S West can spend amounts of money that financially strapped cable companies can only dream about. After raising \$4.1 billion in debt recently, U S West Media Group can easily afford the \$1.2 billion in system upgrades it plans for this year,

they're going to show the rest of the industry how to do it right."

But will its customers agree? Even U S West executives admit to uncertainty about which technologies consumers want and how much they will be willing to pay. Time Warner's much-ballyhooed Orlando interactive-TV test was not a success. Also a bust was a 1995 U S West test in Omaha that showed the company that customers wouldn't pay for all the bells and whistles that the most advanced—and expensive—technology could deliver. Omaha also taught U S West that it is far too expensive to build new networks on top of established cable systems. It's easier and cheaper just to buy and upgrade them.

U S West's cable systems are now being careful in rolling out new services. It plans to test telephone service in Atlanta later this year and still is looking for a city in which to launch digital boxes for movies on demand. After a year of testing, it's selling its cable-modem service for \$49.95 a month to more than 2,000 customers in Boston and Jacksonville,

more than double what Continental spent the year before it signed its merger agreement with U S West. By 1999, says Lillis, the company will have laid fiber-optic wires capable of carrying video, data, and voice to the neighborhoods of more than 98% of its cable subscribers, making it the most sophisticated system in the country. "They're the only cable company sizable enough that has the capital to execute on their own schedule," says Glenn R. Jones, chairman of Jones Intercable Inc., the nation's seventh-largest cable operator. "With their deep pockets,

Fla. "The question for them is how much farther they can go at the prices," says Sharon Armbrust, an analyst with cable follower Paul Kagan Associates. "There are always going to be early adopters out there who will pay for the newest technology."

Until then, U S West Media Group also has to worry about protecting what it already has. Its cable business is facing heavy competition from both direct-broadcast-satellite companies and rival telephone company Ameritech Corp., which is building cable-TV systems in U S West cable strongholds in Detroit, Chicago, and Cleveland. In recent months, subscriber growth of the Continental systems has slowed to 2% slightly below the national average. Competition also forced it to cut rates for some customers.

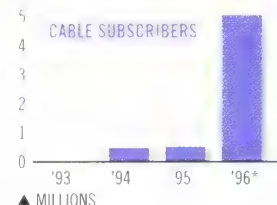
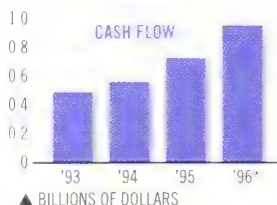
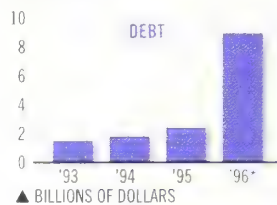
CLEAR AS A BELL. That's not slowing down U S West. The company is negotiating with General Instrument Corp. and Scientific-Atlanta Inc. and soon will

order state-of-the-art digital settop boxes for some of its subscribers. Its 25-person Interactive Services Group is spending tens of millions to buy pieces of Internet companies, including Sports Line USA, go.com, and vDonet, and plans to roll out Web sites offering localized information in 10 cities. Also, its research lab is working out the bugs to allow its cable system to offer phone service that sounds as good as that offered over traditional phone lines.

With cash flow of \$55 million coming in from its Time Warner investment, McCormick and Lillis say that they're in no hurry to cut a deal with Time Warner. "If we don't do nickel's worth of restructuring, we're fine right where we are," says McCormick. "We have pretty good mass and scale. But being bigger surely wouldn't hurt anything, especially for a company that seems intent on winning the race to wire America."

By Ronald Grove and Peter Burrows in Denver

U S WEST'S HIGH-WIRE ACT



*INCLUDES CONTINENTAL CABLEVISION RESULTS STARTING NOV. 15, 1996
DATA: U S WEST MEDIA GROUP

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MANAGEMENT

FORD: THE BOARD STARTS TO GET TOUGH

Dearborn is under the gun to boost margins—now

With overseas losses mounting and the stock falling, Ford Motor Co.'s board of directors reached the boiling point last fall. Sources close to the board tell BUSINESS WEEK that 11 of Ford's outside directors—led by Michael D. Dingman, chief executive of Shipston Group Ltd.—were so frustrated with Ford's unexpectedly high non-U.S. auto losses in the third quarter that they read the riot act to Chairman Alexander J. Trotman. At the November board meeting, Dingman read the chairman a letter from the outside directors calling for him to bring order to Ford 2000, Trotman's increasingly unwieldy global reorganization plan. No more earnings surprises, they said—especially downside ones.

The message is clear: Trotman must

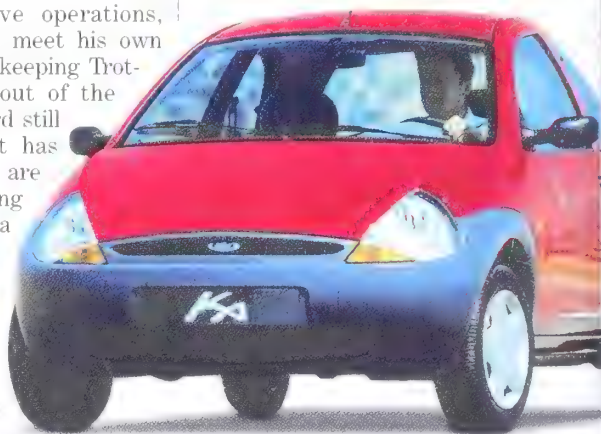
get Ford back on track if he has any hope of staying chairman past his 65th birthday in July, 1998. Ford's auto business is stalling amid high costs and internal chaos from the overhaul. Investors question whether the new president of automotive operations, Jacques A. Nasser, can meet his own cost-cutting goals while keeping Trotman's grand strategy out of the ditch. Although the board still supports Ford 2000, it has grown impatient. "They are asking, 'Is this ever going to really work?'" says a source close to the board.

THE KA: *Cute as a button, but not a big moneymaker*

NASSER: *His 11th-hour design tinkering drives some colleagues crazy*

In a statement, Trotman responded: "The board is of one mind and is strongly behind the management and the direction of the company." He declined to comment on the "content of board meetings." Ford directors did not respond to requests for comment.

The board's restiveness is justifiable. Trotman says Ford is moving toward its goal of a 5% profit margin on autos, but it still has a long way to go. Last year, Ford's worldwide auto margin was an abysmal 1.4%, down from 1.9% in 1995 (chart), and the company posted the worst auto profits and highest cost of the Big Three. Nearly two-thirds of Ford's 1996 net income of \$4.4 billion came from financial services. While Ford



some hot-selling trucks, an in-house entation in November revealed that ars "lose money around the world." ord 2000, launched in January, 1995, supposed to fix all that. But Trot- 's overhaul may be hurting more it's helping. Company insiders say process of centralizing operations earborn, Mich., has demoralized em- ees—and squashed auto earnings. man says Ford 2000 will result in ns in savings and a nimbler com- y. But investors haven't seen a pay- Ford's stock has fallen 16% since

, to 32% on Mar. 11. rd 2000 certainly is ing to make it more cult to reel in their s," says Gary idus, analyst at ford C. Bernstein & which owns 21 mil- shares.

The fireman called in ensure Trotman's vival is Nasser, the ssie with a penchant Savile Row suits antique watches. is known as "Jac

Knife" for his belief that the path to sperity must be slashed open with p spending cuts. "I regard [cost-cut-] as a crusade," he says. Since being moted in October, Nasser, 49, has the troops to cut spending by up to 5 billion this year, to \$114 billion—the t year-over-year cost reduction in rd's 94 years. He is dumping slow- ers like the Probe and putting the underbird on hold until 2001.

Nasser has gone out on a limb with ll Street, too, promising that Ford's rth American auto profit margin will 4% in 1997, up from 2.7% last year. estors cheer his drive—but remain ptical. Says one: "Confidence is too ng a word to use, given Ford's re- t track record. But Nasser will pull all the stops."

THREATS. So far, Nasser is talking gh. In a fiery speech at the Geneva or Show on Mar. 3, he cited "ag- ssive actions" taken to cut European acity and pledged more to come. rces close to Ford say he has been ng-arming union leaders to accept ge and job cuts. If they resist, he eatens to move production. The goal, s an investor, is to cut costs by 20% each of Ford's 14 European plants. Some insiders think Nasser's aura of cess is exaggerated. He slashed 10,000 s when he ran Ford's European op- tions in 1993-94, and profits there re- ended to \$128 million from an \$873

million loss in 1993. But the turnaround was fleeting: Ford lost \$352 million in Europe last year. While sales are strong for the Ka, the quirky minicar Nasser rolled out, it's not a big moneymaker.

Nasser is not entirely to blame, since Europe's car market tanked just as Ford 2000's changes began to be imple- mented. Still, he now must tackle such thorny issues as a surplus of suppliers in high-cost Germany. Analysts say Ford's excess capacity of about 350,000 cars in Europe means that he must close a plant. "He took a big chunk out of em-

panywide meetings exhorting employ- ees to pinch pennies to help cut \$2.5 billion. Staffers emerged from one meet- ing to see five shower stalls in the lob- by, awaiting installation in the new of- fices. "It was like a slap in the face," huffs one staffer. Nasser says his exec- utives can better monitor the business by staying near development, and adds that his office was actually cut down in size to make way for the others.

Nasser will have to chop more than that to make up for car losses, analysts and investors say. Many expect Ford to

double the \$1,000 rebate on the Taurus, which may lose the top-selling car spot to Toyota's Camry. The weak yen is letting the Japanese cut prices on such mod- els as the Camry and Lexus ES300. "Ford's car lineup will come under massive assault," says Bear, Stearns & Co. an- alyst Nicholas Lobac- caro, who rates the stock "unattractive" and projects flat 1997 earn-

ings with auto revenues dipping to \$115 billion. Since Mar. 3, analysts have cut first-quarter earnings estimates 3%, to about \$1 billion.

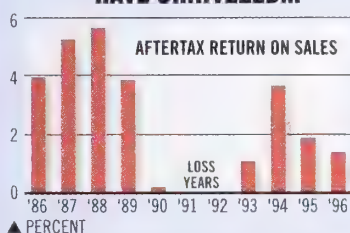
Faced with such grim news, sources close to the board say that directors Dingman and Drew Lewis, retired chair- man of Union Pacific Corp., are not in- clined to extend Trotman's contract be- yond age 65, as he hopes. Also raising tough questions are retired Wells Fargo Chairman Carl E. Reichardt and Coca- Cola Chairman Roberto C. Goizueta. One source close to the talks says the board is weighing whether it should give William Clay Ford Jr., 39, more than the nonexecutive chairman's role it has been considering. To give the company a fresh perspective, the board is consider- ing giving young Ford responsibility for corporate strategy and having him act as public spokesman. Nasser would lead operations as president or CEO, say sources close to the board.

That depends on Nasser pulling off his biggest turnaround. If he fails, the board might look outside Ford for a CEO, the sources say. That would shake Ford's culture to the core. "We all have a lot riding on Jac," CFO John M. Devine re- cently told an analyst. Indeed, if Nasser isn't Mr. Fixit, Trotman's retirement could come earlier than he plans.

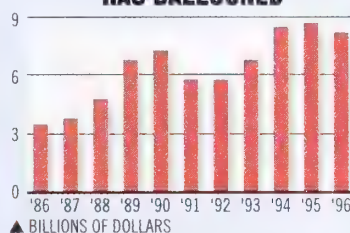
By Keith Naughton in Detroit, with Bill Vlasic in Geneva and Heidi Dawley in London

FINANCIAL PRESSURE BUILDS

AUTO MARGINS HAVE SHRIVELED...



...WHILE CAPITAL SPENDING HAS BALLOONED



DATA, COMPANY REPORTS

ployment three years ago, and that didn't stabilize things," says John Law- son, auto analyst at Salomon Brothers International Ltd. in London.

Not all of Nasser's instincts lead to cost-cutting. Insiders say he likes to tinker with car designs in their late stages, which can lead to multimillion-dollar changes. One design staffer says Nasser shortened the snout of the 1999 Wind- star minivan at the 11th hour because "it didn't fit his design aesthetic." Nasser proudly acknowledges that he sweats the details and says such moves were part of his former job as head of product development. But insiders lament the costs of such changes and their effect on morale. "He views product design as his sandbox," says one manager.

Nasser also has a reputation for ex- ecutive excess. When he was promoted in October, he kept his office at Ford's product development center and had his lieutenants move there. Insiders say the move required a \$1 million remodeling job. The overhaul coincided with com-

Some directors aren't inclined to extend Trotman's contract beyond age 65



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COMMENTARY

By Karen Pennar

A HELPING HAND, NOT JUST AN INVISIBLE HAND

For capitalism to prevail, the widening gap between rich and poor must be addressed

Thirty-five years ago, University of Chicago economist Milton Friedman wrote *Capitalism & Freedom*, a spirited defense of free markets and small government. In the years since, the book became a manifesto for unchaining economies. New generations of economists, at Chicago and elsewhere, embraced its tenets as they fashioned groundbreaking theories to explain human behavior or how financial markets work. Free trade, fiscal discipline, deregulation, and competition became the watchwords of executives and conservative politicians in the U.S. A new orthodoxy—actually a late 20th century brand of an orthodoxy first set forth by Adam Smith—took root in boardrooms across America. The planned economies of the Soviet Union and Eastern Europe collapsed, and new governments unleashed a brash capitalism on their citizens. Emerging nations just entering the global marketplace became fresh converts to the belief

that “free is good”—free markets, free trade, free competition, and the free flow of technology and ideas—even if, often, these nations were hardly free politically.

COUNTERREVOLUTION. For every revolution, though, there is a counterrevolution. In books and articles, journalists and economists are warning about the limits and failures of global free markets and suggesting new interventions by government to reverse these bad effects. No less an anticommunist than George Soros, the Hungarian-born investor who gave millions to support democracy in Eastern Europe, has sounded the alarm in the February issue of the *Atlantic Monthly*. His worry: Unbridled self-interest and laissez-faire policies may destroy capitalism from within.

So who's right? Are free markets an unalloyed good? Or do they do irreparable harm? As with all competing brands of faith, the truth lies somewhere between the two poles. “Perhaps we should be saying: ‘Free is good—but read the fine print,’” observes Claudia D. Goldin, an economic histori-



an with Harvard University.

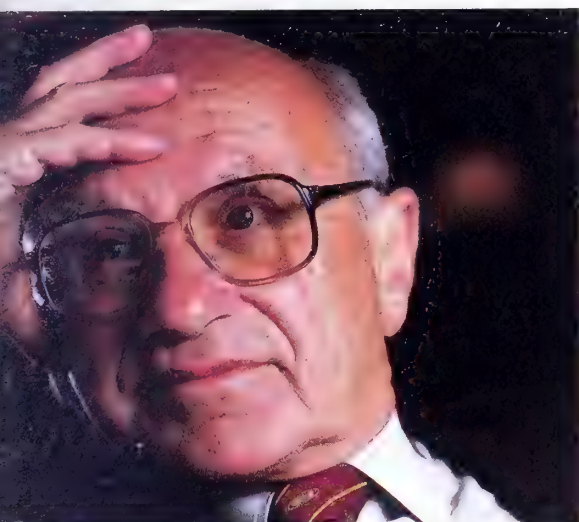
Free-market policies have financed growth around the world. But there have been losses, too, the most notable individuals and groups of individuals who, by reason of personal history, educational attainment, or skill, have slipped down the economic ladder as others have climbed to heights. Friedman believes this is a temporary consequence of economic dynamism, and he always stressed that free markets don't guarantee equality. But in a politically correct society in which cultural and moral values still have power, the persistence and widening of unequal outcomes are troubling. If free-market capitalism is to prevail, free-market rules must allow these issues to be addressed.

Worsening income inequality in the U.S. is not a new phenomenon. A vast literature in the economics profession has documented the widening gap between high school graduates and income returns to college graduates, as well

the noteworthy disparity within groups. In 1980, the male college graduate earned about one-third more than the median male high school graduate, but by 1993, the premium had grown to more than 70%. College grads lost just a small part of their lead in 1995, the last year for which data are available. But cyclical improvement cannot undo the long-term trend that is driving a wedge between the better-educated and the less-educated in America.

While the trend is not new, the struggle to assign blame for it continues apace. In his just-published book *Has Globalization Gone Too Far?*, economist Dani Rodrik of the Kennedy School of Government at Harvard University suggests that globalization has been a bigger factor in explaining the wage gap than the consensus of economists believe. Most estimates say that trade explains only 10% to 20% of the wage gap. But it's important to look beyond direct trade competition to see the broader effects that globalization can have, Rodrik observes.

bargaining, for instance, is likely to be strongly affected by managers' predilection to cite international competition as a reason to keep costs low. Over time, this erodes power. Corporations, meanwhile, flit from country to country, often depriving their home country of tax revenues that might help finance social safety nets. Says Rodrik, governments are forced to curtail social spending at precisely the time when markets are becoming more open to harsh global competition. Selling arguments are mustered in support of the claim that technology is the key factor responsible for the upswing. In a new study, David H. Autor and Lawrence F. Katz of Harvard University and Alan B. Krueger of Princeton University find that 30% to 50% of the increase in the demand for more-skilled workers over the past 25 years can be explained by the spread of computer technology. Diffusion of this technology has occurred in every in-



BERMAN'S GOSPEL Economist's faith in the power of the market has spread from U.S. boardrooms to emerging nations

Increased technological change to be pervasive across the developed world. And even in some developing countries, such as Mexico, where theory suggests that low-wage workers would benefit from increased trade, similar wage gaps between skilled and non-skilled workers have appeared. Free borders have allowed goods, capital, ideas, and technology to move at will, while labor, by its very nature, has remained a relatively stationary item subject to the vicissitudes of the global marketplace. Free markets are the vehicle of the apparatus, by which these changes are playing out. There is no chance, even most critics of free markets concede, of rolling back the clock and imposing protectionist or restrictive measures. Nor should there be a desire to give up the great gains that have been won—and may yet be won—through globalization and technological breakthroughs. But it's not unreasonable to look for ways to ensure people to share in the gains.

industry, and the rising demand for skilled workers and the increasing returns to education occurred across industries as well. Eli Berman at Boston University finds the phenomenon of

"There shouldn't be anything inherently blocking the addressing of these issues," says former Senator Bill Bradley. "Markets are efficient and don't pretend to be equitable." In fact, in the U.S., the labor market itself is responding to the changes that have occurred over the past two decades as more people head for college to obtain the credential that will reward them financially. When the supply of college grads swells and the supply of less educated workers shrinks, there might be some improvement in relative wages for the less skilled. Similarly, the Clinton Administration is focusing

SOROS' SHAKEN FAITH

The staunch anticommunist now warns that unbridled self-interest may destroy capitalism from within



on education—though Bradley and others caution that new proposals such as a subsidy to pay for community college will merely jack up the price of the two-year programs rather than broaden access.

MISSING THE MARK. But these responses in the marketplace and by government may not sufficiently ameliorate inequalities. What's more, the strong polarities that remain between free-market theorists and their dissenters suggest that current remedies for both free-market excesses and government ineptitude may be missing the mark. It's time to look at how these two dominant sectors affect the third vitally important sector known as the community, or civil society. Historically, civil society has developed independently of both the market and government. But there are bonds and linkages that develop over time, and corporate actions and government policies can easily affect the health and welfare of communities.

It's one thing for a company to meet global competition by shedding some low-wage workers and reallocating resources toward computers and high-skilled workers. It's quite another thing for a company that's a major employer in a community to pull out, lock, stock, and barrel, and relocate overseas. That employer does have an obligation to the community it has left in the lurch. And if localities are going to trip over each other to offer tax breaks and other giveaways to companies to set up shop, they ought to demand a hefty quid pro quo in the form of job guarantees from the companies to the community.

Similarly, it may be true that government hasn't spent

money well in its assistance programs, and that the poor should move off welfare and into work. But just how will that be accomplished? Recent studies show that for many single mothers, the biggest obstacle to obtaining work isn't lack of education or even lack of job opportunities. It is, rather, an overriding concern for the well-being of their children in dangerous neighborhoods that keeps them at home. Government monies haven't improved those neighborhoods, and their absence likely won't either. A different solution might be: directing funds to help families move out of crime-ridden public housing and into communities where they can feel more secure about their families, more socially engaged, and thus better able to leave home and go to work. The government's Moving To Opportunity program, funded after the Los Angeles riots, is beginning to do just that.

CONVENIENCE? Recent work in academia suggests that community and civil society have an important role to play in promoting economic growth. The political scientist Robert D. Putnam, in his 1993 book *Making Democracy Work*, studied variations in civic traditions in modern Italy and their correlation with regional success. More recently, Putnam and economist John F. Helliwell of the University of British Columbia in Vancouver concluded that, holding initial income constant, regions of Italy with a more developed "civic community"—as measured by a composite index of voter turnout, newspaper readership, and density of sports and cultural associations—had higher growth rates from 1950 to 1990.

Increasingly, both conservatives and liberals recognize that civil society can and should play a beneficial role in the economy. For political conservatives, it may be a convenience to suggest that neighborhoods and communities can pick up where government leaves off. And for liberals, the impulse to promote community values comes as a response to a perceived national obsession with individual self-interest. But whatever the reasons, the new interest in the economic role of social groups, neighborhoods, and communities promises to alter the terms of a tired debate between the relative merits of government and free markets.

Senior Writer Pennar covers developments in economics.

Government

POLICY ADVISERS

WHISPERING IN BILL'S RIGHT EAR

The widening influence of New Democrat Bruce Reed



The defining moment in Bruce N. Reed's career came last July, when he made the case for welfare reform at a White House showdown in front of President Clinton. Eschewing the argument that the issue was good election-year politics, the New Democrat intellectual calmly discussed the failures of the welfare system. Administration liberals begged Clinton not to abandon the poor. "It was a riveting debate," recalls Reed. "When it was over, nobody could tell which way the decision would go." But not for long. Clinton decided to sign the Republican-written welfare bill, prompting two liberal advisers to resign. And policy wonk Reed, 37, won a post-election promotion: chief domestic adviser to the President.

These days, this soft-spoken son of a former Idaho state senator is moving to enact the centrist promises of Clinton's 1996 campaign. They include initiatives to help former welfare recipients find

DIPLOMATIC
Reed, 37, says that Clinton "has always been his own best domestic policy adviser"

jobs, an emphasis on parental responsibilities in child-rearing, a renewed offensive against juvenile crime and drugs, and a more stringent anti-terrorism measure.

The job is a dream come true for the former Rhodes Scholar. But it's also tough

since the boss always butts in. Reed put it diplomatically: "The President has always been his own best domestic policy adviser." Still, Clinton listens.

The two go back nearly a decade—when Clinton chaired the centrist Democratic Leadership Council and Reed edited its magazine, *The New Democrat*. "We have a work-to-work relationship," the Princeton University English major chuckles. He played a key role in shaping Clinton's 1992 campaign man-



[Second Place, Cold War]

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"The President chose Reed because he has chosen to accede to Republican priorities," gripes a liberal critic

fest, *Putting People First*. Reed also has close ties to Vice-President Al Gore, serving as chief speechwriter when Gore was in the Senate.

Those connections make Reed a powerful player inside the White House. But they haven't shielded him from political snipers on the Left and the Right. Mindful of the '96 welfare battle, many liberal Democrats view Reed as a traitor. With the departure of liberal stalwarts—Harold M. Ickes, George R. Stephanopoulos, and Leon E. Panetta—from Clinton's circle of advisers, the progressives fear the Administration will turn its back on traditional constituencies to attract business, suburban professionals, and GOP moderates. "The President chose Reed because he has chosen to accede to Republican priorities," gripes Jeff Faux, president of the Economic Policy Institute, a liberal think tank.

And although Reed shares the GOP's fondness for family values, Republicans aren't reveling in his ascendancy. Conservatives complain that Clinton's balanced-budget blueprint creates expensive new domestic programs such as mandated health benefits for children. "Their budget is fundamentally left-wing," grumbles Grover G. Norquist, president of Americans for Tax Reform, a conservative think tank. "It would make Ickes and Stephanopoulos proud."

DEEP THINKERS. The attention Reed is getting these days is evidence that Clinton is giving the Domestic Policy Council a larger role than in his first term, when Carol H. Rasco was DPC chair. An obscure Arkansas welfare official with close ties to the Clintons, Rasco seemed to make many policy decisions on an ad hoc basis. The result: Clinton drew fire for appearing to vacillate and looking unprincipled—until political adviser Dick Morris persuaded the President to stick to the center by co-opting GOP issues.

Acting on Clinton's order to beef up domestic policy, Reed has assembled a staff dominated by deep thinkers rather than political vets. To ensure follow-through on Administration initiatives, Reed created teams assigned to education, welfare, health, and crime. White House colleagues are impressed. "Bruce has invigorated domestic policy," crows senior Clinton adviser Rahm Emanuel.

Trumpeting family values is no mere political exercise. Married since 1983 to

his high school sweetheart, a former Justice Dept. lawyer who is now a full-time homemaker, Reed is the father of two young children. He readily boasts that his 3-year-old daughter, Julia, "learned to walk in the Oval Office."

Despite that doting-dad demeanor, Reed is a fierce competitor. Indeed, the former captain of Oxford University's ice-hockey team acknowledges that "politics is a contact sport." And Reed must quickly summon up his hockey skills for the coming political face-off over the fiscal 1998 budget. Why the rush? Much of the domestic policy blueprint for the

second term will be rolled into that document, which is likely to form the basis for a five-year balanced-budget deal with Hill Republicans. Among the top priorities tied up in budget talks: tax breaks for college education and for job training, a restoration of certain welfare benefits for legal aliens, and additional transportation assistance to help inner-city residents travel to suburban jobs. **"BULLY PULPIT."** Getting Republicans to cut a deal, however, may be tough. The Donorgate campaign-finance scandal festers, Hill Republicans have hardened their resistance to new Clinton initiatives. Indeed, GOP leaders—perceiving Clinton's weakness—have delayed the start of serious budget talks.

With congressional action uncertain, Reed is pushing ideas that don't require legislation—but that use the President's "bully pulpit" to spur state governments and the private sector into action. One example: Clinton's emphasis on improving American education standards, including a request that all schools adopt standardized tests in math and English for fourth and eighth graders by 1999. The President is also urging businesses to hire former welfare recipients.

But as Reed woos the private sector, he'll have to watch his left flank. Some Hill Democrats believe they can persuade Clinton to ignore his political work. Representative Cynthia A. McKinney (D-Ga.), a leader of the Congressional Progressive Caucus, figures the President's rightward drift is temporary—and can be reversed by Democratic threats to withhold votes for Clinton initiatives. "I can't believe that that shift to the right represents anything more than political opportunism," says McKinney. "The countervailing pressures that can be put on the White House by people like me can make sure that shift is only momentary."

That's not likely. Still, Reed is doing his best to avoid further alienation of the left. With a major revision of welfare reforms doubtful, the White House is pushing "welfare-to-work" initiative to find jobs for ex-recipients. But such attempts to reach out to Democratic constituencies are not a sign of ideological softness. As friend and foe have learned in the past, this intellectual speaks softly and—even when he's not on the ice—skillfully wields a big stick.

By Richard S. Dunham in Washington

REED'S SOCIAL AGENDA

EDUCATION

The top priority of a second Clinton term. Reed will work with states to establish national skills exams in English and math by 1999. But congressional Republicans are cool to Clinton's proposed tax breaks for college fees and job training.

WELFARE REFORM

Now that the welfare entitlement has ended, Reed is urging business to create jobs for former recipients. Other priorities: Increased spending to transport inner-city residents to suburban jobs and restore benefits to legal aliens.

FAMILY VALUES

Reed is an architect of the "personal responsibility" theme of Clinton's '96 campaign, which called for school uniforms and curfews. His latest push: Expansion of the Family & Medical Leave Act of 1993 to cover doctor visits and parent-teacher conferences.

CRIME

Despite resistance from some liberal Democrats, Reed is negotiating with Hill Republicans on a bipartisan plan to crack down on juvenile crime. But White House antiterrorism initiatives draw GOP fire as an infringement on individual rights.

Life In The Fast Lane Just Got A Little Smoother And Quieter.



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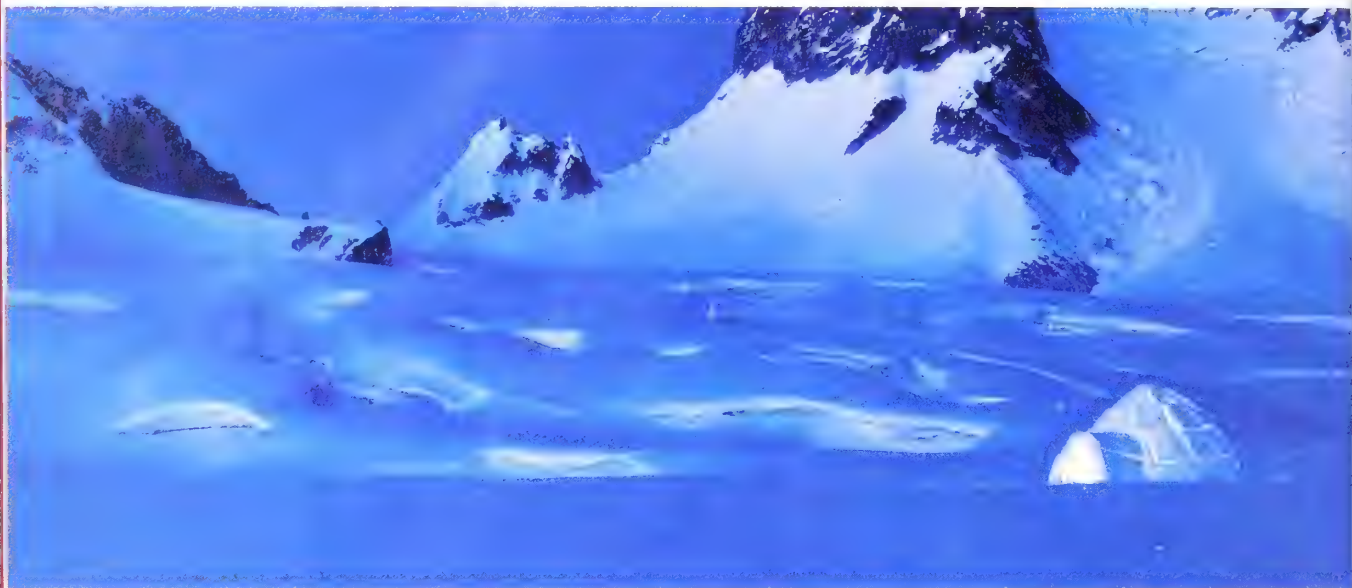
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grow—at a fraction of the cost of expanding your current network. LAWSON INSIGHT. *Because the future can't wait.*



Who are the standouts among the companies of the S&P 500? Introducing the *Business Week 50*, an honor roll of the best performers culled from the all-important index. Rewarding such factors as sales and profit growth and total return to shareholders, the *BW 50* provides a dynamic look at corporate performance—and delivers plenty of surprises

THE BEST PERFORMERS

The stars of the S&P 500 index, and how they made the cut. Page 80

Why it's so hard to beat the S&P. Page 82 Making the most of the data. Page 90 Obscure stars. Page 85

PERFORMANCE RANKINGS OF THE S&P 500

A corporate report card with eight grades for each of the 500 companies. Page 91

INDUSTRY RANKINGS OF THE S&P 500

How each company stacks up against peers in its industry. Page 119

AN ALPHABETICAL LISTING OF COMPANIES

This table includes rankings in market value, sales, and profits. Page 152

THE BEST PERFORMERS

The companies of the S&P 500 are the most closely watched in America. Now, for the first time, we are ranking them on how well they perform. At the top are the Business Week —the new corporate elite

The Business Week

1 INTEL	9 MBNA	16 EMC	22 NORWEST
2 MICROSOFT	10 PFIZER	17 FEDERAL HOME LOAN MORTGAGE	23 PHILLIPS PETRO
3 DELL COMPUTER	11 ORACLE	18 ANDREW	24 MERRILL LYNCH
4 CISCO SYSTEMS	12 NATIONSBANK	19 GREEN TREE FINANCIAL	25 COCA-COLA
5 TRAVELERS GROUP	13 SUN MICROSYSTEMS	20 HFS	26 FIRST BANK SYS
6 MERCK	14 BRISTOL-MYERS SQUIBB	21 TELLABS	27 ELI LILLY
7 NIKE	15 JOHNSON & JOHNSON		28 GILLETTE
8 COMPAQ COMPUTER			29 LOCKHEED MAR

50

Merck & Co. may date back to the era of the horse and buggy, but when it comes to turbo-charged performance, the health-care titan could teach any Silicon Valley startup a thing or two. When the partially constructed Virginia plant for Merck's new AIDS drug, Crixivan, got buried under four feet of snow last year, everyone from managers to lab workers rushed in with snow shovels. That helped Merck get the lifesaving drug off the production line just 15 months after breaking ground, nine months ahead of schedule.

You won't find a column measuring that kind of dedication and resourcefulness on any balance sheet. But it's one potent ingredient in a mix of factors that helped propel Merck to double-digit sales and earnings gains last year, when it reaped a staggering 45.5% for

shareholders. Merck may be an old-line company, but compare its performance with those of many other stalwarts in Corporate America, and it's a sprightly standout. The pharmaceutical giant charged into the No. 6 slot on BUSINESS WEEK's all-new performance ranking of the 500 companies in the Standard & Poor's index.

Merck is in good company. Intel Corp. stood out as the top all-around star. Close behind were three other high-tech giants: Microsoft, Dell, and Cisco Systems—proof, if ever it was needed, of the incredible strength and vibrancy of America's technology leaders. "Being in the right business is sort of the equivalent of being to the manor born," says Intel Chairman and Chief Executive Andrew S. Grove. But a high-tech focus wasn't necessary to win a spot on the honor roll. Rounding out the top ranks were

PERFORMERS

Week Fifty

ILLINOIS TOOL
WORKS

MEDTRONIC

FIRST UNION

HEALTHSOUTH

3COM

FIRST CHICAGO NBD

PANENERGY

37 SCHERING-PLOUGH

38 DEAN WITTER,
DISCOVER

39 BOSTON SCIENTIFIC

40 MGIC INVESTMENT

41 FANNIE MAE

42 GENERAL ELECTRIC

43 TYCO INTERNATIONAL

44 SERVICE CORP. INTERNATIONAL

45 AMERICAN HOME PRODUCTS

46 FIFTH THIRD BANCORP

47 NORTHERN TELECOM

48 ABBOTT LABORATORIES

49 AMGEN

50 COLUMBIA/HCA
HEALTHCARE

such powerhouses as Nike, financial services giant Travelers, and MBNA, a Delaware-based bank that has become a star in the credit-card industry.

What makes a top corporate performer? Who's the best across the corporate landscape—and who's the best within each industry? That's what BUSINESS WEEK set out to discover. Deploying a range of key growth measures that investors and managers alike use to judge operating and financial performance, our aim was to ferret out those champions that stand head and shoulders above their peers. The result: the BUSINESS WEEK Performance Ranking, and their centerpiece, the BUSINESS WEEK 50—the best overall performers among the S&P 500 companies.

Taken together, the Performance Ranking and the BW 50 provide a detailed, wide-ranging report card on corporate performance. They won't look like many other best-of lists you've seen, but they will give you a host of insightful new ways to analyze many of the biggest-name companies trading in America. Why? Because on most lists, sheer size is what counts. Indeed, the new ratings replace the BUSINESS WEEK 1000, which ranked companies by market capitalization.

But being the biggest doesn't always mean being the best. Case in point: General Motors Corp. Although it continues to rank as America's largest company by sales volume—a heft that enables it to reel in more profits than all but a handful—when analyzed by such performance-driven measures as sales or earnings growth, margins, or return to

“Companies are finally realizing that you can't shrink to greatness”

ERIC ALMQUIST, Mercer

shareholders, GM is a less-luminous giant. It came in just No. 286 in overall performance.

Instead, BUSINESS WEEK's ranking captures the dynamism and the growth that are at the core of any successful company. At the end of the day, what really matters in an ultracompetitive global economy is performance. And ultimately, performance means growth: It's a reflection of management's ability to build new businesses, to find new revenues, to drive earnings up, and

to create shareholder value. “Finding ways to grow,” says John F. Welch, chairman and CEO of General Electric Co., is the ticket to the dance.”

LITTLE FAT LEFT. Moreover, with the economy heading into its seventh year of expansion—and fears of an inevitable slowdown on the rise—the need to squeeze additional growth out of assets weighs more heavily than ever on management. And after years of downsizing and restructuring, many of the best managers in Corporate America know they've wrung about as much as possible out of costs. Sure, keeping expenses down is important, but companies from GE to Gillette Co. are far more focused on developing new businesses and digging more revenues out of the old. “Companies are finally realizing that you can't shrink to greatness,” says Eric Almquist, a vice president of New York-based Mercer Management Consulting Inc.

That's certainly true of the top performers who have made it to the BW 50. They have gone about it in different ways, but all focus on growth. Some have bulked up through acquisitions; others have spent heavily on research and development and produced a steady stream of innovative new products. Still others concentrate intently on core bus-



WHY IT'S SO TOUGH TO BEAT THE S&P

The whole world watches the Dow Jones industrial average, but for investment managers, beating the Dow will not necessarily make them heroes. Whether they collect a fat bonus or nothing at all depends on their performance vs. the Standard & Poor's 500 stock index.

The S&P index first gained sway over the markets back in the 1970s, when pension-fund managers sought a broad-based index against which to judge their performance. Though much else on Wall Street has changed in the years since, the S&P 500 has persisted as the market's principal benchmark—and an often difficult one to beat at that. For the past three years, in

fact, most institutional money managers and mutual-fund managers have failed to do so. Only 22% of U.S. diversified equity funds topped the index in 1996, for example.

As a consequence, frustrated investors have poured an estimated \$475 billion into S&P index funds. Since the end of 1994 alone, the assets of the largest index

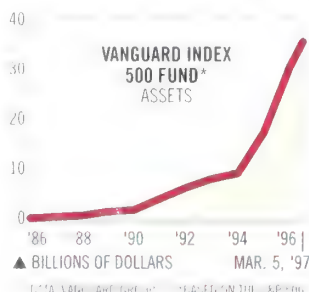
mutual fund, the Vanguard Index 500 Fund, have risen 276% (chart). Because such funds in turn buy the same index stocks, the effect is perverse: Those purchases drive prices higher still, making the index even harder to beat.

The index itself was born in 1957, when the number of stocks in the S&P Composite was increased from 416. In 1976, the configuration

was codified: 400 industrial stock utilities, 40 financial, and 20 transportation, though the guidelines have been relaxed to reflect the market. It was also around then that the S&P gained prominence, in reaction to federal law that required pension administrators and consultants to monitor money managers' performance. The Dow industrials, with just 30 stocks, was too narrow. The S&P, which accounted for some 95% of the market capitalization, seemed the right choice.

WORK IN PROGRESS. If the S&P has since become a Wall Street institution, its composition is always in flux. In 1995 and 1996, 57 names were added, mainly to replace acquired companies. This year has seen two switches: insurance broker Alexander & Alexander was replaced by insurer American International, while Boatmen's Bancshares was replaced by HealthSouth. The index keepers at S&P determined that the health care company would make the in-

SMALL INVESTORS FLOCK TO THE S&P 500



SALES *The best and worst in sales performance*

TOP TEN (ONE-YEAR)

PERCENT INCREASE

HFS	93%
CISCO SYSTEMS	80
UNITED HEALTHCARE	78
SONAT	74
TJX	68
WALT DISNEY	67
CROWN CORK & SEAL	65
WELLS FARGO	62
NORAM ENERGY	62
JEFFERSON-PILOT	56

BOTTOM TEN (ONE-YEAR)

PERCENT DECREASE

NOVELL	-34%
STONE CONTAINER	-30
APPLE COMPUTER	-23
ADVANCED MICRO DEV.	-21
ALCAN ALUMINUM	-18
JAMES RIVER	-16
ASARCO	-16
CHAMPION INTL.	-16
HERCULES	-15
TEXAS INSTRUMENTS	-13

TOP TEN (THREE-YEAR)

AVERAGE ANNUAL INCREASE

CISCO SYSTEMS	81.4%
VIACOM	78.3
HEALTHSOUTH	72.2
3COM	60.1
WORLDCOM	58.5
FIRST DATA	57.3
FIRST CHICAGO NBD	56.9
BOSTON SCIENTIFIC	53.6
ST. JUDE MEDICAL	52.8
APPLIED MATERIALS	52.7

BOTTOM TEN (THREE-YEAR)

AVERAGE ANNUAL DECREASE

DUN & BRADSTREET	-27.1%
CVS	-24.0
TENNECO	-23.8
ITT INDUSTRIES	-22.3
BAXTER INTL.	-18.8
CALIBER SYSTEM	-17.3
IKON OFFICE	-16.9
KERR-McGEE	-14.0
UNOCAL	-12.9
NOVELL	-12.7

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE MCGRAW HILL COMPANIES

esses, dominating their markets. And along the way, many have reworked incentive systems to reward workers and managers alike for going the extra mile.

So how did BUSINESS WEEK calculate its ranking? We began with two of the most important components investors use to judge operating performance: top-line revenue growth and earnings growth. Next, we added total returns, a core measure of how well management is performing for shareholders. Since sustaining growth is far more difficult than spiking on a short-term spurt, we measured all three of these key rates over both one- and three-year time spans.

Finally, we added two key indicators of financial performance: net margins and return on equity. After all, growth does little good if management gets scant return from its assets.

With the eight criteria set, next came judgment day. We evaluated each of the companies in the much-watched index produced by Standard & Poor's. S&P is owned by The McGraw-Hill Companies, which also owns BUSINESS WEEK. Why the S&P? Quite simply, it has become the universally accepted measure for stock market performance, both on Wall Street and among small investors. Its 500 companies

to the makeup of the market. Choosing a replacement, S&P takes consideration market value, industry, and a prospect's financial health. "S&P has done a good job of ensuring the index reflected the debt, basic manufacturing and the technology," says H. Vernon Smith, chief investment officer at Private Capital Management. "When they choose new companies, they look for better, more successful companies and that gives the index more growth orientation."

Another major consideration for adding companies for the index is liquidity. If investors can't buy or sell easily, S&P doesn't want it. Why UAL Corp., despite a \$38 billion market value, is not in the index. 5% of its shares are locked in an employee stock-ownership plan.

What makes the index so tough to crack is a capitalization-weighted index accounting for 69% of the index value of the \$8.1 trillion U.S. stock market. The larger the market cap of a company, the more it counts in the index. The 10 largest stocks drive

19% of the index, and the 50 biggest, nearly half. This makes the index sensitive to the fortunes of these megacompanies, and for the past few years, at least, they have been on a roll. The globalization of business plays right to their strengths. Corporations such as General Electric Co. and Coca-Cola Co. have the products, expertise, and re-

higher returns, over the past three years that hasn't been the case. Even when managers invest in large-cap stocks, they "equal-weight" their portfolios. So if the larger companies outperform the smaller, these managers don't always get the same performance as the index funds.

Because movement in the S&P 500 is so influenced by the largest companies,

BULK POWER The index is highly sensitive to the fortunes of megacompanies like Coke and GE, and globalization has them humming

sources to exploit those opportunities.

Another reason why money managers are underperforming the index is that they tend to invest in companies that have, on average, much smaller market caps than those in the S&P. Although historically, smaller stocks have delivered

many investment managers would prefer to be judged by other measures. "The best benchmark is one that emulates the pond where the manager is fishing," says Ronald D. Peyton, president of Callan Associates Inc., an investment consulting firm that can draw on some 600 indexes. Still, Peyton concedes, what clients of these managers still want to know at the end of the day is: "Did we beat the S&P?"

By Jeffrey M. Laderman in New York

together make up two-thirds of the total market value of U.S. stocks. As such, they are some of the most important—and most closely followed companies—in Corporate America (page 82).

The results provide an in-depth look at how these companies really stack up against one another. Who has got the best—or the worst—three-year sales growth record among the 500? The best net margins? The worst return to shareholders? You'll find the answers scattered throughout the accompanying pages. But you'll find much more. BUSINESS WEEK also assigned the 500 companies a report-card grade for each of the eight criteria, based on how well each performed against its peers. It's just like in school: For every measure, the companies that ranked in the top 20% received an A, the

next 20% got a B, and so on down to the Fs in the bottom quintile. (The handful of S&P companies for whom data was not available—primarily new spin-offs—received an incomplete.) Those grades can be found in the Performance Ranking table starting on page 91.

TWO ALL-STARS. Finally, to obtain our overall Performance Ranking of the 500, BUSINESS WEEK then averaged the ranking each company received. Here, to recognize the fact that it's a lot easier for small companies to score big percentage gains than for big companies, we weighted the ranking slightly by sales volume.

The result? Think of it as the corporate equivalent of a student's grade-point average. And it's no surprise that Intel and Microsoft are the class valedictorians: Among all 500 companies, they're the only two that received straight As.

More surprising is that a corporation such as Walt Disney Co.—often thought of as among America's best—ranks as low as No. 96. But a glance at the report card shows it's no mystery: Although Disney earned As for its shareholder returns, it averaged just a middling C for its financial and operating performance.

Since even the best companies sometimes get slammed—or boosted—by factors affecting the entire industry, it's important to compare them to their peers. And even within a middling industry, superior management often allows some companies to rise above the pack. That's why we also included extensive industry ranking based on the same criteria as our overall ranking. Those tables reveal a wealth of additional data as well. They

EARNINGS GROWTH *The best in profits growth*

TOP TEN (ONE-YEAR)

PERCENT INCREASE

KIMBERLY-CLARK	4128%
BOSTON SCIENTIFIC	2495
CONSOLIDATED NATURAL GAS	1297
ARMSTRONG WORLD INDUSTRIES	1112
ITT INDUSTRIES	960
DARDEN REST.	671
AMR	476
CIGNA	400
BURLINGTON NORTHERN SANTA FE	349
HELMERICH & PAYNE	348

TOP TEN (THREE-YEAR)

AVERAGE ANNUAL INCREASE

ALCOA	330.8%
McGRAW-HILL	213.2
HEALTHSOUTH	201.8
RAYCHEM	185.6
INCO	141.5
U.S. SURGICAL	138.4
IKON OFFICE SOLUTIONS	135.4
AMR	120.1
OCCIDENTAL PETROLEUM	118.0
NEW YORK TIMES	110.1

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE MCGRAW-HILL COMPANIES

include the actual growth rates upon which our performance grades are based, in addition to sales and profits figures and shareholder information such as recent share price, the price-earnings ratio, yield, and earnings per share. Industry Ranking begins on page 119. An alphabetical index of the S&P 500 companies, including their ranking by total market value, sales, and profits, begins on page 152.

Taken together, the tables add up to a vivid and sometimes surprising snapshot of those companies—and those industries—that have become standouts. Who made it to the top? After a decade of transformation in the way health care is delivered and financed, that industry has emerged stronger than ever, with 13 companies in the BW 50 honor roll—giving it the best performance

of any industry measured in our ranking.

The relentless demand for semiconductors and computers paid off for high-tech companies. Altogether, the office equipment and computer industry took eight of the top 10 spots, while electrical and electronics, which includes Intel, took two.

Banks also figure large, with seven entrants in the Top 50. Why? A spate of mergers brought quick growth to some—and may have boosted the stocks of some others in the hopes that they, too, would become targets. Just as important,

a moderately growing economy, low interest rates, and low inflation have created a near-perfect environment, with borrowers both eager for loans and solvent enough to pay them off.

CONTRARIAN COMPANIES. But those economic factors combined to make for extremely rough going for the metals and mining industry. Performance there was almost uniformly dismal, with over half the entrants ranking below 400, including No. 495, Echo Bay Mines Ltd. The low inflation that helped the banks, flattened gold prices. Aluminum prices were also weak last year.

Still, just being in the right place does not assure success. Companies from cyclical industries, such as Phillips Petroleum Co. in fuel and Tyco International Ltd. in manufacturing, have also found their way to the top. Lockheed Martin Corp. explodes in an ailing industry, and Digital Equipment Corp. ails in an exploding one. Peppered through the BW 50, too, are some extraordinarily well-performing companies that most people have probably never heard of: Illinois Tool Works

EARNINGS DECLINE

BOTTOM TEN (TWELVE-MONTH LOSS)

MILLIONS OF DOLLARS

WORLDCOM	-\$2188.9
APPLE COMPUTER	-867.0
WESTINGHOUSE	-838.0
TELE-COMMUNICATIONS	-479.0
DIGITAL EQUIPMENT	-342.8
AMDAHL	-326.7
BETHLEHEM STEEL	-308.8
OWENS CORNING	-284.0
SUN	-281.0
LOUISIANA-PACIFIC	-200.7

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE MCGRAW-HILL COMPANIES

STARS YOU MAY NEVER HAVE HEARD OF

Back in 1937, when Motorola Inc. was perfecting the push-button radio for cars, AT&T was still Ma Bell, and cell-phone giant Craig O. McCaw wasn't even born, Victor J. Andrew started selling antennas to radio stations. Victor who? After six decades, the company Andrew founded is still not a household name, but it's riding the same boom in wireless communications to prosperity as its better-known brethren. In BUSINESS WEEK's new Performance Ranking, Andrew Corp. weighed in at No. 18.

Over the years, the Orland Park (Ill.)-based company followed the expansion of radio and then TV, supplying nuts-and-bolts components for

both. Now, hot demand for yet another technology is fueling its growth. After moving into antennas, batteries, and hands-free kits for cell phones, Andrew now makes the microwave dishes, towers, and transmission lines that send and receive phone signals around the world. Although it is hardly the only company making such cellular gear, a broad international presence has allowed Andrew to grow faster and more profitably than most.

These days, almost half its sales are overseas. That helped drive average annual profits up 49.2% over the past three years. Total return for the period: 272.1%.

OFF THE RADAR. Andrew is not the only obscure winner. The Standard & Poor's 500-stock index may represent the most closely studied companies in the world, but tucked away in the nooks and crannies are some first-class performers that don't often appear in the limelight. The rigorous growth and performance measures BUSINESS WEEK applied to the S&P 500 companies unearthed a handful of little-known dynamos.

Who are these unsung performers? Some, such as No. 33 ranked HealthSouth Corp., are youngsters with a great new product or strategy yet to be recognized by the world at large. Others, such as Andrew, have a longer history but have recently

surged along with demand for what they do. "It amazes me that with all the talent and time that goes into analyzing companies, those with growing profitability can still fly beneath the radar screen," says Dwight Gertz, chief executive of Symmetrix Inc., a management consulting firm.

In virtually every measure of growth BUSINESS WEEK tallied, for example, Illinois Tool Works Inc. surpasses its peers in the S&P 500. That was good enough to earn the Glenview (Ill.) company the No. 30 spot in our rankings—but throw the

sales of \$5 billion last year, ITW returned 39.1% to shareholders.

Combine a great idea with the right market conditions, and a new leader can emerge before the rest of the world catches on. That's what

happened to HealthSouth, No. 33. It has grown so fast that few outside its industry realize it's now the nation's biggest operator of outpatient clinics, with 1,000 in 50 states.

Founded 13 years ago by Richard M. Scrushy, a former country singer, the Birmingham (Ala.)-based company saw opportunity in the new world of managed care. Scrushy's idea: Buy

up small operators, and run them better. With 11 acquisitions, sales have revved up to an annual average pace of 72.2% over the past three years; profits to 201.8%.

CONVERTS. A lot of the strategies that carried better-known companies to the top are also working for these obscure ones. The same focus that made Intel Corp. the best performing company in the BW 50 works a similar magic for Intel's less famous cousin, EMC Corp. EMC's specialty: computer data storage, a market it dominates. EMC's ascent has astounded investors who only 18 months ago were so skeptical of the company's "intelligent storage" products could deliver what they promised that the stock sat at 18 for months. Apparently, there are now believ-

ers. Recently, EMC's stock was trading at 40, and it has returned shareholders 96% over the past year.

In our new Performance Ranking, having a famous name is obviously no guarantee of success. Companies from Walt Disney Co. to Wal-Mart Stores Inc. failed to make it to the top. But obscurity is also no handicap. Out of the spotlight, these little-known companies have quietly racked up marquee-quality results. Now, they're secrets no more.

I. Jeanne Dugan in New York, with Greg Burns in Chicago, and bureau reports

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STEALTH DYNAMOS Andrew Corp. and Illinois Tool are hardly household names, but they're stellar performers

name out at a cocktail party and the likely response is: "Illinois who?" The \$5 billion company produces low-tech gizmos from adhesives to auto handles for manufacturers around the world.

The secret of Illinois Tool's success? Intense decentralization that gives managers the freedom usually reserved for entrepreneurs. "Is 365 operations too many? Will we lose contact?" asks CEO W. James Farrell. "Our division managers say don't screw around with it." Shareholders would probably agree with profits that climbed 25%, to \$486 million on





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TOTAL RETURN *The best and worst in shareholder returns*

TOP TEN (ONE-YEAR)

PERCENT INCREASE

DELL COMPUTER	299.3%
CONSECO	151.6
INTEL	147.5
NIKE	120.4
GREAT WESTERN FINANCIAL	114.3
TJX	105.5
EMC	96.0
MBNA	91.0
MICROSOFT	90.2
ALLEGHENY TELEDYNE	89.7

BOTTOM TEN (ONE-YEAR)

PERCENT DECREASE

BAY NETWORKS	-58.8%
INTERGRAPH	-55.3
DIGITAL EQUIPMENT	-51.8
BETHLEHEM STEEL	-46.6
ECHO BAY MINES	-46.0
APPLE COMPUTER	-44.7
DARDEN REST.	-43.6
CALIBER SYSTEM	-42.8
GREAT LAKES CHEMICAL	-42.8
DSC COMMUNICATIONS	-40.6

TOP TEN (THREE-YEAR)

PERCENT INCREASE

DELL COMPUTER	1150.5%
TELLABS	547.6
NIKE	493.0
SUN MICROSYSTEMS	405.3
HFS	391.2
MICROSOFT	378.0
INTEL	329.3
BOSTON SCIENTIFIC	323.8
MBNA	303.4
SEAGATE TECHNOLOGY	302.0

BOTTOM TEN (THREE-YEAR)

PERCENT DECREASE

BETHLEHEM STEEL	-65.2%
CHARMING SHOPPES	-64.0
NAVISTAR INTL.	-61.2
CALIBER SYSTEM	-58.6
APPLE COMPUTER	-54.9
UNISYS	-53.8
NOVELL	-50.5
LOUISIANA-PACIFIC	-49.4
HARRAH'S ENTERTAINMENT	-48.5
GREAT LAKES CHEMICAL	-42.5

Andrew, and Tellabs, to name a few (page 85).

Of course, no list is perfect. Ours tends to make companies recovering from a period of lackluster performance look better than they actually are. That's the case with No. 88, Loews Corp., which was deep in the doldrums three years ago but has revamped since, selling off CBS and adding to its CNA insurance subsidiary. Other corporate events can also create anomalies. Lucent Technologies' stock climbed 81.7% from last April, when it went public, through February 21. Still, the company didn't register on the BW 50 radar screen because it hasn't been around long enough to have measures in our three-year growth categories. Meanwhile, companies such as ITT Industries and CVS Corp., which have spun off units, also move down the ranks. CVS is sure to catapult back up the ranks when its purchase of Revco D.S. Inc. becomes complete, making it the second-largest drugstore chain in the country.

TELECOM BLUES. Almost as interesting as which companies are achieving rapid growth is which companies are not. The BUSINESS WEEK Performance Ranking uncovered emerging problems at some old favorites. Hewlett-Packard Co., an icon of performance, saw sales grow 18% last year, to \$39 billion. Still, it slips just one notch below the BW 50. Why? Falling prices for printers and chips pulled profits growth down to 3%—well below the S&P average of 13%. And one-year shareholder returns of just 14% earned HP only a C.

Boom times also seem to have bypassed the telecommunications sector. Only two telecom companies made it into the BW 50: Tellabs Inc., a Lisle (Ill.) maker of telephone transmission equipment, at No. 21, and Northern Telecom Ltd., another equipment maker, which came in No. 47. It's telling that the industry stars were providers of equipment and not services. Service companies, such as the Baby Bells, shelled out lots of money for equipment from the likes of Tellabs, hoping for a payoff in a demand for new services that has yet to materialize. The result: While the rest of its industry languishes, Tellabs, with sales last year of \$869 million, has racked up a three-year total return of 547.6%,

second only to Dell Computers. "We've had the wind at our backs," says Michael J. Birck, chief executive since the company's founding 22 years ago.

So what makes the great ones great? While there's no single formula for success, there are traits among the BW 50 that crop up in company after company and industry after industry. For GE, like many others, a tight focus on core businesses has proven key. GE may not be in the top 10 in our ranking, but it is in the top 10% at No. 42, a remarkable feat for an \$79 billion behemoth. For GE to achieve its 11% profit growth last year, it had to generate a staggering \$707 million in additional earnings—more than our smallest companies had in total sales. Over the past three years, sales

have increased an average 10.6% and profits 17.3%. Shareholders have been rewarded with returns of 110% over the past three years.

With an intensely driven, competitive culture, General Electric generates much of its growth internally. But it's not the only company that turns its resources inward to grow. Nobody, in fact, has gotten more mileage out of

R&D dollars than the health-care providers. With profits squeezed by the new demands of managed care, pharmaceuticals are boosting productivity and funneling the difference into new drugs. "There's nothing like new products to accelerate your financial performance and stimulate your growth," says Merck Chief Executive Raymond V. Gilmartin. He should know. Merck's sales and profits have both grown at a better than 20% average rate over the past three years. While the company got a big boost from its acquisition of Medco in 1993, Merck has also benefited handsomely from new drugs. Crixivan alone contributed \$188 million in sales last year.

R&D doesn't work for everyone, however. Other companies have rocketed ahead through acquisitions. In industry after industry, the trend toward consolidation and the need to bulk up for global markets have produced a wave of mergers and buyouts. Still, there are pitfalls. Just look at Quaker Oats Co., No. 435 on our list, which is still staggering from its disastrous \$1.7 billion purchase of Snapple in 1995.

“Finding ways to grow is the ticket to the dance”

JACK WELCH, General Electric

However, when it works, the right partner in a merger can offer a company a quick route to leveraging hard-won expertise or expensive facilities. Take HFS, No. 20 on our list. Sales have grown at a blistering 5% average pace over the past three years and profits by 68.1%. Its secret? HFS scours the market for brand-name franchise businesses, such as Ramada, Motel 6, and Century 21, that it can acquire, fix up, and market to the baby boomer customers it focuses on. That gave it the best sales growth for last year—93%—any company we measured. It's not alone in its strategy: Many of the Top 10 players on our one- and three-year sales growth lists made it there through acquisitions.

But the best example of the power of mergers may be the No. 5-ranked Travelers Group. A troubled Travelers Inc. was gobbled up by Primerica in 1993, which then took the company's name. Last year it also added Aetna's property and casualty business. Those combinations have helped Travelers, which leads the nonbank financial industry in our ranking, rack up an impressive average annual sales growth over the past three years of 44.4%. Profits averaged 35% a year over the same period. Most of Travelers' business is split evenly among property and casualty insurance, life insurance, and securities. "We have concentrated on things we understand," says chairman and CEO Sanford Weill.

Whether they buy new businesses or generate them internally, most of the companies that top our list believe in making the people who run their units responsible for the unit's performance. That's part of the GE formula: decentralization. It has 13 independent businesses, from plastics to airplane engines to medical products. Each has \$25 million it can spend without going to the board or Jack Welch.

A similar hands-off structure shows up again and again along the BW 50, transcending size and industry. When Johnson & Johnson launches a particularly hot product, it quickly build what amounts to a new company around it, even giving the outfit a distinct name. "When people look at us as

NET MARGIN *The best and worst margins*

TOP TEN (1996)		BOTTOM TEN (1996)	
	PERCENT INCREASE		PERCENT DECREASE
MBIA	59.1%	ECHO BAY MINES	-52.4%
MGIC	34.4	WORLDCOM	-48.8
INVESTMENT		AMDAHL	-20.0
GREEN TREE FINANCIAL	33.4	BATTLE MOUNTAIN GOLD	-17.5
UST	33.2	CHARMING SHOPPES	-10.9
AMGEN	30.4	WESTINGHOUSE	-9.9
MICROSOFT	26.2	APPLE COMPUTER	-9.8
INTEL	24.7	LOUISIANA-PACIFIC	-8.1
FIRST BANK SYSTEM	24.4	OWENS CORNING	-7.4
MELLON BANK	22.6	BETHLEHEM STEEL	-6.6
ALZA	22.5		

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE MCGRAW-HILL COMPANIES

a \$20 billion-plus company, I keep telling them that that's not the way to look at J&J," says CEO Ralph S. Larsen. "We are 165 to 170 decentralized operating companies, all of which are growing at different levels."

That belief in entrepreneurship shows up another way at the top companies on our list: They tend to reward their employees lavishly for performance. Norwest Corp. in Minneapolis, No. 22 in our ranking, believes that it pays to pay for great results. The bank's stock-option plan reaches 53,000 employees—right down to the tellers. Employees own 9%, or \$1.7 billion worth, of Norwest shares, with just \$100

million in the hands of the top 15 executives. Shareholders inside and outside the company have done just fine, thank you very much: The bank's total return over the past three years was 124.2%.

DOWN TO A SCIENCE. Many of the superstars also got to the top by doing just one or a few things better than almost anyone else. Intel in computer chips, for example. And in banking, No. 9-ranked MBNA leads the rest of the pack with a clearly defined strategy of issuing credit cards to borrowers with above-average payment records. The bank's specialty: selling affinity cards to groups of consumers with similar professional or recreational interests. "Success is getting the right customer and keeping the right customer," says MBNA President Charles Cawley. That kind of discipline helped MBNA achieve 26.5% return on equity last year, far above the 14.3% industry average.

Hand in hand with focus is a common belief in the importance of market leadership. No. 28-ranked Gillette aims to dominate the market in every category in which it competes. In 10 years, it has gone from a slow-moving razor-blade maker to a nimble leader marketing an array of consumer products. Indeed, 80% of its \$9.7 billion in revenues comes from businesses in which it's a world leader, such as pens, batteries, and toothbrushes, up from

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RETURN ON EQUITY *The best and worst ROE*

TOP TEN (1996)		BOTTOM TEN (1996)	
	PERCENT INCREASE		PERCENT DECREASE
AVON PRODUCTS	222.0%	WESTINGHOUSE	-51.5%
GENERAL MILLS	186.3	AMDAHL	-50.5
US AIRWAYS	179.4	APPLE COMPUTER	-44.6
UST	145.9	ECHO BAY MINES	-29.4
TUPPERWARE	69.1	BETHLEHEM STEEL	-28.0
COCA-COLA	56.0	CHARMING SHOPPES	-27.8
SCHERING-PLOUGH	54.1	SUN	-22.7
DELL COMPUTER	48.9	KAUFMAN & BROAD HOME	-19.4
CERIDIAN	48.8	TELE-COMMUNICATIONS	-15.8
MCGRAW-HILL	45.8	STONE CONTAINER	-14.6

Excludes companies with negative equity

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE MCGRAW-HILL COMPANIES

50% five years ago. "Worldwide leadership is vitally important," says Alfred M. Zeien, chairman and CEO. "It allows you to mobilize resources to fight local battles."

More than anything, the Performance Ranking that follow show that when viewed through the lens of growth and performance, a very different picture of America's corporate superstars emerges. Stripped of the advantage of sheer size, some familiar names start to look decidedly mediocre. Others that are less well known suddenly stand out. In assessing the overall excellence of prospective investments, stock pickers need to consider lots of factors. Sure, size counts. Market position, the

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industry that a company is in, and management are all important, too. In the end, however, investors need to answer just one question: Will a dollar invested in a company today be worth more or less next year or five years from now?

No list can predict the future. But by providing a sense of how well the 500 most-watched companies in America have met that test in the recent past, the new Business Week Performance Ranking offer a much better starting point for assessing the future.

By I. Jeanne Dugan in New York, with Alison Rea in New York, Joseph Weber in Philadelphia, and bureau reports

MAKING THE MOST OF A MOUNTAIN OF DATA

Whether you're seeking stocks with high-octane growth, prefer steady, predictable earners, or simply want to see how your stocks stack up next to their peers, BUSINESS WEEK's all-new Performance Ranking are a valuable launching pad for research.

The best place to start is at the overall ranking of the Standard & Poor's 500-stock index companies in the tables that begin on page 91. Momentum investors may want to focus on the top of the list, host to the fastest-growing companies—many of them high-risk, high-reward technology companies. The more cautious may want to stick to the top-ranked manufacturers or consumer and health-care giants among the BUSINESS WEEK 50, such as Merck (No. 26) or General Electric Co. (No. 42).

CLUES. For other companies with solid franchises that are more defensive plays, investors might venture deeper into the ranking. They'll find the likes of Campbell Soup Co. (No. 183) or Hershey Foods Corp. (No. 267), "predictable, mature, good companies," says Gordon Fines, manager of the IDS New Dimensions A Fund. "They're not going to double overnight, but they also won't get cut in half."

Whatever your goals, a company's grades in the Performance Ranking provide many clues on whether it's headed up or down. Start by comparing the grades for three-year growth rates with those for one year. If the one-year grades are much higher than the three-year, investors may want to consider if a company is rebounding.

Profitability comparisons are a good place to begin. No. 192-ranked Boeing Co., for example, earned an F for three-year profits growth but an A over the past year. A sign of much improved performance, that could mean the stock may still rise. But investors will want to check grades for total return to see if the stock price already reflects the improvement.

PROSPECTING WITH THE PERFORMANCE RANKING

- ▶ If you're a momentum investor willing to take risks, focus on the fastest-growing stocks in the top ranks.
- ▶ If you're a contrarian investor, search further down for more defensive, or even turnaround, plays. Big profit jumps may signal a turnaround.
- ▶ To see whether a company is gaining or losing momentum, compare performance over one and three years.
- ▶ Use the industry ranking to explore the interplay between sales, profits, and shareholder returns. Any one measure, taken alone, may be misleading.

DATA BUSINESS WEEK

For more on Boeing's operating performance, check the numerical data in the industry ranking tables (page 119). These contain the growth rates on which grades are based. And in the columns to the far right, Boeing's 12-month high, as well as the recent share price and the I/B/E/S Inc. 1997 earnings-per-share forecast, offer potent clues as to whether its gains already are factored into its stock.

Those earning estimates, however, should be viewed in context. The 1997 estimate for Cisco Systems

(No. 4) is for a 36% gain, for example. But while Cisco earned an A for total returns over three years, it got just a C for one year. Why? Turn to the profitability data in the industry ranking tables, and you'll see Cisco's profits growth starting to slow. And a look at the far right side of the page shows that Cisco is trading well off its 12-month high. "The fact that the [stock] valuation has come down so much suggests that the market does not have a high degree of confidence that Cisco will meet its earnings expectations," says Howard F. Ward, portfolio manager for the Gabelli Growth Fund.

STARTING POINT. To figure how well a company is using its money, investors also can compare a company's return on equity (ROE) to its peers' and the industry average. But a high ROE can disguise a heavy debt load, so use it only as a starting point.

Indeed, don't view any measure in isolation. Sales growth isn't relevant alone, either. "Certain companies could have very high sales growth and make no money," Ward warns. Quick test: Contrast sales and profitability growth rates over

comparable time periods to see if they match. Also recall that companies with torrid growth may be coming off a growth spurt, and high gains may be leveraging off a low base.

Just as you wouldn't judge a stock by just one measure, the Performance Ranking shouldn't be the sole basis for buying or selling. But armed with information from the tables, investors have a solid platform from which to launch a stock search.

By Suzanne Woolley in New York

BUSINESS WEEK'S PERFORMANCE RANKINGS OF THE S&P 500

What makes a top corporate performer? To determine how the companies within the S&P 500 index stack up against one another, Business Week ranked all 500 using eight key criteria of financial success. We looked at growth in sales, profits, and return to shareholders. To reward consistency, we measured performance over both one year and three years. And to get a better fix on which companies squeeze the most out of their operations, we analyzed profit margins and return on equity. Using those rankings, we assigned grades for each measure. The top 20% received an A, the next 20% got a B and so on, down to the F's in the bottom quintile. Finally, we combined the individual category rankings, and added a slight weighting for sales volume, to come up with our overall ranking.

RANK	COMPANY	PERFORMANCE GRADES								INDUSTRY GROUP
		TOTAL RET. Pk. (1 YEAR)	TOTAL RETURN (3 YEARS)	SALES GROWTH (1 YEAR)	SALES GROWTH (3 YEARS)	PROFIT GROWTH (1 YEAR)	PROFIT GROWTH (3 YEARS)	NET MARGIN	RETURN ON EQUITY	
1	INTEL	A	A	A	A	A	A	A	A	Electrical & Electronics
2	MICROSOFT	A	A	A	A	A	A	A	A	Office Equipment & Computers
3	DELL COMPUTER	A	A	A	A	A	A	C	A	Office Equipment & Computers
4	CISCO SYSTEMS	C	A	A	A	A	A	A	A	Office Equipment & Computers
5	TRAVELERS GROUP	A	A	A	A	A	A	B	B	Nonbank Financial
6	MERCK	A	A	A	A	B	B	A	A	Health Care
7	NIKE	A	A	A	A	A	B	B	A	Consumer Products
8	COMPAQ COMPUTER	A	A	A	A	A	A	C	B	Office Equipment & Computers
9	MBNA	A	A	A	A	A	B	A	A	Banks
10	PFIZER	A	A	B	B	B	A	A	A	Health Care
11	ORACLE	C	A	A	A	A	A	A	A	Office Equipment & Computers
12	NATIONSBANK	A	A	B	A	B	B	A	B	Banks
13	SUN MICROSYSTEMS	B	A	A	A	B	A	C	A	Office Equipment & Computers
14	BRISTOL-MYERS SQUIBB	A	A	C	C	A	C	A	A	Health Care
15	JOHNSON & JOHNSON	B	A	B	B	B	B	A	A	Health Care
16	EMC	A	B	A	A	B	A	A	A	Office Equipment & Computers
17	FEDERAL HOME LOAN MORTGAGE	A	A	A	A	B	C	B	B	Nonbank Financial
18	ANDREW	A	A	A	A	A	A	B	B	Electrical & Electronics
19	GREEN TREE FINANCIAL	B	A	A	A	B	A	A	A	Nonbank Financial
20	HFS	A	A	A	A	A	A	A	D	Service Industries

THE S&P 500

Business Week's Performance Rankings

PERFORMANCE GRADES

INDUSTRY GROUP

		TOTAL RETURN 1 YEAR	TOTAL RETURN 3 YEAR	SALES GROWTH 1 YEAR	SALES GROWTH 3 YEAR	PROFIT GROWTH 1 YEAR	PROFIT GROWTH 3 YEAR	NET MARGIN	RETURN ON EQUITY	
21	TELLABS	A	A	A	A	C	A	A	B	Telecommunications
22	NORWEST	A	A	B	B	B	B	A	B	Banks
23	PHILLIPS PETROLEUM	B	C	B	C	A	A	B	A	Fuel
24	MERRILL LYNCH	A	A	B	B	A	D	C	A	Nonbank Financial
25	COCA-COLA	A	A	D	C	B	B	A	A	Consumer Products
26	FIRST BANK SYSTEM	A	A	C	B	A	A	A	A	Banks
27	ELI LILLY	A	A	C	D	B	A	A	A	Health Care
28	GILLETTE	A	A	B	A	D	A	B	A	Consumer Products
29	LOCKHEED MARTIN	C	A	B	A	A	A	D	B	Aerospace & Defense
30	ILLINOIS TOOL WORKS	B	B	A	B	B	A	B	B	Manufacturing
31	MEDTRONIC	C	A	B	A	B	A	A	A	Health Care
32	FIRST UNION	A	A	B	A	C	B	A	C	Banks
33	HEALTHSOUTH	C	A	A	A	A	A	B	C	Health Care
34	3COM	F	A	A	A	A	A	B	A	Office Equipment & Computers
35	FIRST CHICAGO NBD	A	A	F	A	B	A	A	C	Banks
36	PANENERGY	A	B	A	A	B	A	D	C	Utilities
37	SCHERING-PLOUGH	B	A	B	C	B	C	A	A	Health Care
38	DEAN WITTER, DISCOVER	A	A	B	B	C	C	B	B	Nonbank Financial
39	BOSTON SCIENTIFIC	A	A	A	A	A	D	B	B	Health Care
40	MGIC INVESTMENT	B	A	A	A	B	B	A	B	Nonbank Financial
41	FANNIE MAE	B	B	B	B	B	C	B	B	Nonbank Financial
42	GENERAL ELECTRIC	B	B	B	C	C	B	B	A	Conglomerates
43	TYCO INTERNATIONAL	A	A	A	B	B	A	C	C	Manufacturing
44	SERVICE CORP. INTERNATIONAL	B	B	A	A	A	A	A	D	Service Industries
45	AMERICAN HOME PRODUCTS	B	A	C	A	C	C	A	A	Health Care
46	FIFTH THIRD BANCORP	A	A	A	A	B	B	A	C	Banks
47	NORTHERN TELECOM	A	A	A	B	A	B	D	C	Telecommunications
48	ABBOTT LABORATORIES	A	B	B	C	C	C	A	A	Health Care
49	AMGEN	D	A	B	B	B	B	A	A	Health Care
50	COLUMBIA/HCA HEALTHCARE	C	C	B	A	A	A	C	B	Health Care
51	HEWLETT-PACKARD	C	A	B	A	C	B	C	B	Office Equipment & Computers
52	BELLSOUTH	C	B	C	D	A	B	A	A	Telecommunications
53	U.S. BANCORP	A	B	D	A	A	B	A	B	Banks
54	MORGAN STANLEY GROUP	B	B	A	B	A	C	C	C	Nonbank Financial
55	TJX	A	C	A	A	A	C	D	B	Discount & Fashion Retailing
56	WARNER-LAMBERT	A	A	D	C	C	A	B	A	Health Care
57	ROYAL DUTCH PETROLEUM	B	B	B	B	B	B	C	C	Fuel
58	DUPONT	B	B	D	D	C	A	B	A	Chemicals
59	NATIONAL CITY	A	B	D	A	B	B	A	B	Banks
60	AMOCO	B	B	A	C	A	C	B	B	Fuel



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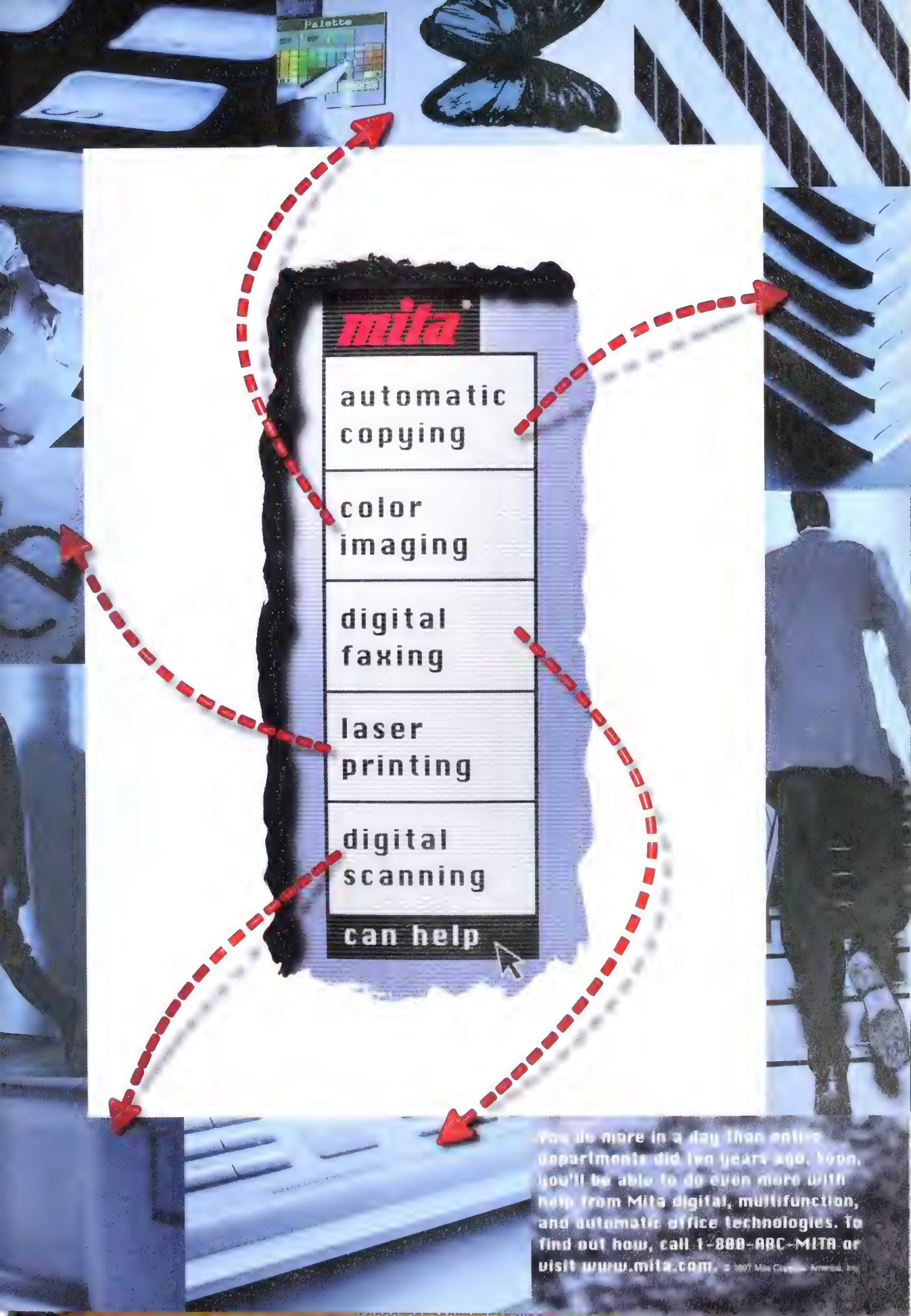
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		PERFORMANCE GRADES							INDUSTRY GROUP	
		TOTAL RET. RN. (1 YEAR)	TOTAL RETURN (3 YEARS)	SALES GROWTH (1 YEAR)	SALES GROWTH (3 YEARS)	PROFIT GROWTH (1 YEAR)	PROFIT GROWTH (3 YEARS)	NET MARGIN	RETURN ON EQUITY	
61	GAP	B	C	A	B	B	B	B	A	Discount & Fashion Retailing
62	PROCTER & GAMBLE	A	A	D	D	B	A	B	A	Consumer Products
63	KIMBERLY-CLARK	B	B	F	A	A	D	B	A	Paper & Forest Products
64	WILLIAMS	B	A	A	A	B	B	B	D	Utilities
65	TEXACO	B	B	A	B	A	C	D	B	Fuel
66	BANK OF NEW YORK	A	A	F	B	C	B	A	B	Banks
67	BURLINGTON NORTHERN SANTA FE	D	D	A	A	A	B	B	C	Transportation
68	BANKAMERICA	A	A	C	B	C	C	A	D	Banks
69	CHRYSLER	B	D	B	B	A	D	C	A	Automotive
70	RAYCHEM	B	A	C	C	A	A	A	A	Electrical & Electronics
71	INTERNATIONAL BUSINESS MACHINES	C	A	C	C	A	A	C	A	Office Equipment & Computers
72	PRAXAIR	B	A	A	A	C	B	C	C	Chemicals
73	McGRAW-HILL	C	C	D	B	A	A	A	A	Publishing & Broadcasting
74	PHILIP MORRIS	B	A	D	F	B	B	A	A	Consumer Products
75	SCHLUMBERGER	B	B	B	C	A	C	B	C	Fuel
76	WELLS FARGO	B	A	A	A	C	B	A	F	Banks
77	APPLIED MATERIALS	B	B	B	A	D	A	A	B	Manufacturing
78	FIRST DATA	D	B	A	A	D	A	A	B	Office Equipment & Computers
79	ALLSTATE	A	A	C	D	C	B	B	C	Nonbank Financial
80	DOVER	D	B	C	A	A	A	B	A	Manufacturing
81	AMERICAN EXPRESS	A	A	D	C	B	D	A	A	Nonbank Financial
82	NORAM ENERGY	A	B	A	B	A	A	F	D	Utilities
83	AMERICAN INTERNATIONAL GROUP	B	B	C	B	B	C	B	C	Nonbank Financial
84	CHEVRON	C	C	A	D	A	B	C	B	Fuel
85	REPUBLIC NEW YORK	A	B	B	B	A	C	A	D	Banks
86	CITICORP	A	A	D	F	C	B	A	B	Banks
87	ALBERTO-CULVER	A	A	A	B	A	B	D	B	Consumer Products
88	LOEWS	C	B	B	B	D	A	C	B	Nonbank Financial
89	NEWELL	B	B	B	A	B	C	B	B	Manufacturing
90	AMERITECH	D	B	B	C	C	B	A	A	Telecommunications
91	ATLANTIC RICHFIELD	C	C	B	D	B	A	B	A	Fuel
92	CERIDIAN	F	B	B	A	A	A	A	A	Office Equipment & Computers
93	BANC ONE	B	B	B	C	C	C	A	B	Banks
94	PNC BANK	A	B	F	B	A	D	A	B	Banks
95	GTE	C	B	C	F	C	A	A	A	Telecommunications
96	WALT DISNEY	C	C	A	A	C	B	C	D	Leisure Time Industries
97	GANNETT	C	C	A	D	A	C	A	A	Publishing & Broadcasting
98	HOME DEPOT	D	D	A	A	B	B	D	C	Discount & Fashion Retailing
99	CLOROX	A	A	B	C	C	C	B	A	Consumer Products
100	ANHEUSER-BUSCH	B	B	C	F	A	B	B	A	Consumer Products



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PERFORMANCE GRADES

INDUSTRY GROUP

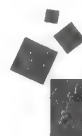
		TOTAL RET. AN. (1 YEAR)	TOTAL RETURN (1 YEAR)	SALES GROWTH (1 YEAR)	SALES GROWTH (3 YEARS)	PROFIT GROWTH (1 YEAR)	PROFIT GROWTH (3 YEARS)	NET MARGIN	RETURN ON EQUITY	
101	AUTOMATIC DATA PROCESSING	D	C	A	A	B	C	A	B	Office Equipment & Computers
102	SBC COMMUNICATIONS	D	C	B	C	C	C	A	A	Telecommunications
103	FLEET FINANCIAL GROUP	A	B	C	A	D	A	B	D	Banks
104	COASTAL	B	C	B	D	A	A	D	B	Fuel
105	INTERPUBLIC GROUP	C	C	B	B	A	B	C	A	Service Industries
106	CATERPILLAR	C	C	D	B	B	B	B	A	Manufacturing
107	CPC INTERNATIONAL	C	B	B	B	C	C	C	A	Food
108	INGERSOLL-RAND	C	D	B	A	A	B	D	B	Manufacturing
109	MCI COMMUNICATIONS	C	D	A	B	A	B	C	D	Telecommunications
110	BARNETT BANKS	A	A	C	D	C	B	A	B	Banks
111	BANK OF BOSTON	A	A	F	A	D	A	A	C	Banks
112	CHASE MANHATTAN	A	A	F	A	D	B	B	D	Banks
113	JEFFERSON-PILOT	D	B	A	A	A	C	A	C	Nonbank Financial
114	DEERE	D	C	C	B	C	A	C	A	Manufacturing
115	EMERSON ELECTRIC	B	C	B	B	C	C	B	B	Electrical & Electronics
116	PACIFIC TELESIS GROUP	A	C	C	F	C	A	B	A	Telecommunications
117	WALGREEN	C	B	B	B	B	C	D	B	Health Care
118	CIGNA	B	A	F	F	A	A	D	C	Nonbank Financial
119	HALLIBURTON	C	A	A	D	B	A	D	C	Fuel
120	ALLEGHENY TELEDYNE	A	A	F	A	D	A	C	A	Conglomerates
121	MARRIOTT INTERNATIONAL	C	B	B	C	B	B	F	A	Leisure Time Industries
122	J.P. MORGAN	B	B	C	B	B	D	A	C	Banks
123	AVON PRODUCTS	A	A	C	C	C	C	C	A	Consumer Products
124	EXXON	B	B	C	C	B	C	C	B	Fuel
125	BENEFICIAL	A	B	A	F	A	C	A	C	Nonbank Financial
126	SPRINT	C	C	B	C	B	B	B	C	Telecommunications
127	GOLDEN WEST FINANCIAL	B	B	C	B	A	C	A	C	Nonbank Financial
128	PIONEER HI-BRED INTERNATIONAL	B	B	B	C	B	C	A	A	Food
129	GENERAL RE	C	C	B	A	C	C	B	D	Nonbank Financial
130	SUNTRUST BANKS	A	A	C	C	C	C	A	C	Banks
131	HARNISCHFEGER INDUSTRIES	D	B	A	A	C	A	D	B	Manufacturing
132	AVERY DENNISON	A	A	D	C	B	B	D	B	Manufacturing
133	HONEYWELL	B	A	C	C	B	C	D	B	Electrical & Electronics
134	UNITED TECHNOLOGIES	A	A	D	D	B	B	D	B	Aerospace & Defense
135	HOUSEHOLD INTERNATIONAL	A	A	F	D	B	B	B	B	Nonbank Financial
136	THERMO ELECTRON	D	B	A	A	A	A	C	D	Electrical & Electronics
137	AIR PRODUCTS & CHEMICALS	A	C	C	C	B	B	B	B	Chemicals
138	JOHNSON CONTROLS	C	C	A	A	B	B	F	C	Manufacturing
139	COLGATE-PALMOLIVE	B	B	D	C	A	F	C	A	Consumer Products
140	MARSH & McLENNAN	B	C	B	C	B	C	B	A	Nonbank Financial



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PERFORMANCE GRADES

INDUSTRY GROUP

		TOTAL RETURN 1 YEAR	TOTAL RETURN 3 YEAR	SALES GROWTH 1 YEAR	SALES GROWTH 3 YEAR	PROFIT GROWTH 1 YEAR	PROFIT GROWTH 3 YEAR	NET MARGIN	RETURN ON EQUITY	
141	CONSECO	A	A	C	B	B	D	B	C	Nonbank Financial
142	HELMERICH & PAYNE	B	C	A	C	A	B	A	D	Fuel
143	SHERWIN-WILLIAMS	B	B	A	B	B	C	D	B	Housing & Real Estate
144	ALLIEDSIGNAL	B	B	F	D	B	C	C	A	Conglomerates
145	PARKER HANNIFIN	C	B	B	B	D	A	C	C	Manufacturing
146	CORESTATES FINANCIAL	B	A	F	A	C	B	A	C	Banks
147	UNOCAL	B	C	A	F	A	B	B	B	Fuel
148	MINNESOTA MINING & MFG.	B	B	C	F	B	D	B	A	Manufacturing
149	DAYTON HUDSON	A	B	C	C	A	D	F	C	Discount & Fashion Retailing
150	EASTMAN KODAK	B	A	C	C	D	B	C	B	Leisure Time Industries
151	ENRON	D	D	A	B	C	B	D	C	Service Industries
152	SARA LEE	C	B	D	C	C	B	D	B	Food
153	BAKER HUGHES	B	B	B	D	A	A	C	D	Fuel
154	ROHM & HAAS	B	C	D	C	B	A	B	B	Chemicals
155	PITNEY BOWES	B	C	C	C	B	C	A	B	Office Equipment & Computers
156	CROWN CORK & SEAL	C	C	A	A	A	C	D	F	Containers & Packaging
157	MOBIL	C	B	C	B	B	C	D	C	Fuel
158	U.S. SURGICAL	A	A	C	D	A	A	B	D	Health Care
159	WACHOVIA	B	B	D	B	C	C	A	B	Banks
160	H.J. HEINZ	C	B	C	C	C	D	C	A	Food
161	US WEST COMMUNICATIONS GROUP	C	C	C	F	C	A	A	A	Telecommunications
162	XEROX	B	B	D	F	C	B	C	A	Office Equipment & Computers
163	USX-MARATHON GROUP	A	B	B	B	D	F	D	B	Fuel
164	PPG INDUSTRIES	B	C	D	C	D	A	B	A	Housing & Real Estate
165	ALZA	F	D	A	A	B	B	A	C	Health Care
166	MCDONALD'S	F	C	C	B	C	C	A	B	Leisure Time Industries
167	FRONTIER	F	F	A	A	A	B	B	B	Telecommunications
168	SANTA FE ENERGY RESOURCES	A	C	A	C	A	A	C	F	Fuel
169	MCDONNELL DOUGLAS	A	A	F	F	D	B	C	A	Aerospace & Defense
170	MELLON BANK	A	A	F	F	C	B	A	B	Banks
171	BRUNSWICK	C	C	C	B	A	A	C	C	Leisure Time Industries
172	UNION CARBIDE	D	B	D	C	F	A	B	A	Chemicals
173	SONAT	A	B	A	A	C	D	C	C	Utilities
174	ONEOK	B	B	A	B	A	C	D	C	Utilities
175	AMR	F	D	D	D	A	A	C	B	Transportation
176	BAXTER INTERNATIONAL	C	A	C	F	A	D	B	A	Health Care
177	GENERAL SIGNAL	B	D	B	B	A	B	C	B	Electrical & Electronics
178	BANKERS TRUST NEW YORK	A	D	B	B	A	F	C	D	Banks
179	AMERICAN GENERAL	B	B	C	B	C	B	B	D	Nonbank Financial
180	COMERICA	A	A	F	B	C	D	A	C	Banks

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PERFORMANCE GRADES

INDUSTRY GROUP

		TOTAL RET. AN. 1 YEAR	TOTAL RET. AN. (3 YEARS)	SALES GROWTH 1 YEAR	SALES GROWTH 3 YEAR	EFF. C. GROWTH (1 YEAR)	PROFIT GROWTH 3 YEAR	NET MARGIN	RETURN ON EQUITY	
181	BEMIS	B	B	C	B	B	B	C	B	Containers & Packaging
182	NORTHROP GRUMMAN	C	B	A	B	D	A	F	D	Aerospace & Defense
183	CAMPBELL SOUP	B	A	D	D	D	D	B	A	Food
184	ECOLAB	B	B	B	C	B	C	C	A	Consumer Products
185	OCCIDENTAL PETROLEUM	D	C	D	C	A	A	C	D	Fuel
186	SEAGATE TECHNOLOGY	A	A	D	A	F	B	D	D	Office Equipment & Computers
187	COMPUTER ASSOCIATES INTL.	F	A	A	A	D	D	C	B	Office Equipment & Computers
188	ROWAN	A	A	A	B	D	F	B	D	Fuel
189	ALUMINUM CO. OF AMERICA	B	B	D	B	F	A	D	D	Metals & Mining
190	ST. PAUL	C	B	B	C	C	C	B	C	Nonbank Financial
191	MBIA	B	C	A	C	B	C	A	C	Nonbank Financial
192	BOEING	B	A	B	F	A	F	D	D	Aerospace & Defense
193	RITE AID	B	A	C	B	C	B	F	C	Health Care
194	SEARS, ROEBUCK	B	A	C	F	B	F	D	A	Discount & Fashion Retailing
195	PROVIDIAN	C	B	C	C	B	C	A	C	Nonbank Financial
196	LOWE'S	D	F	A	A	B	B	D	C	Discount & Fashion Retailing
197	MATTEL	F	C	D	B	C	A	B	A	Leisure Time Industries
198	FLUOR	D	C	A	B	B	C	F	C	Service Industries
199	NYNEX	D	C	F	F	B	B	B	B	Telecommunications
200	SNAP-ON	B	C	B	C	B	C	B	C	Manufacturing
201	COMPUTER SCIENCES	F	B	B	A	B	B	D	D	Office Equipment & Computers
202	IKON OFFICE SOLUTIONS	C	B	A	F	A	A	D	F	Conglomerates
203	TIMKEN	C	C	C	B	B	A	C	C	Manufacturing
204	UNION PACIFIC	B	C	B	C	B	D	B	D	Transportation
205	CRANE	C	B	D	B	B	B	D	B	Service Industries
206	AIRTOUCH COMMUNICATIONS	F	F	A	A	A	A	B	F	Telecommunications
207	SHARED MEDICAL SYSTEMS	D	B	A	B	B	C	C	B	Office Equipment & Computers
208	US AIRWAYS GROUP	C	C	C	D	A	F	D	A	Transportation
209	GENERAL MILLS	C	C	C	F	A	D	C	A	Food
210	BECTON, DICKINSON	C	A	D	D	C	C	B	A	Health Care
211	ENGELHARD	D	D	B	B	C	A	D	B	Chemicals
212	FMC	F	D	B	C	D	A	D	A	Manufacturing
213	WENDY'S INTERNATIONAL	C	D	C	B	A	B	B	C	Leisure Time Industries
214	COLUMBIA GAS SYSTEM	A	B	A	F	D	C	C	C	Utilities
215	TENET HEALTHCARE	B	B	A	A	F	D	D	D	Health Care
216	UNITED HEALTHCARE	F	D	A	A	B	B	D	F	Health Care
217	DOW CHEMICAL	D	D	F	D	C	A	B	A	Chemicals
218	KNIGHT-RIDDER	C	C	D	D	A	B	B	A	Publishing & Broadcasting
219	CONSOLIDATED NATURAL GAS	B	C	B	D	A	F	C	C	Utilities
220	AUTOZONE	F	F	A	A	B	B	C	B	Discount & Fashion Retailing

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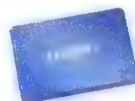
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		PERFORMANCE GRADES							INDUSTRY GROUP	
		TOTAL RETURN (1 YEAR)	TOTAL RETURN (2 YEARS)	SALES GROWTH (1 YEAR)	SALES GROWTH (3 YEARS)	PROFIT GROWTH (1 YEAR)	PROFIT GROWTH (3 YEARS)	NET MARGIN	RET. ON EQUITY	
221	TRIBUNE	C	C	C	C	B	C	A	B	Publishing & Broadcasting
222	SALOMON	A	D	D	D	A	D	B	C	Nonbank Financial
223	WAL-MART STORES	D	F	B	B	C	C	F	B	Discount & Fashion Retailing
224	RALSTON PURINA	B	A	F	F	C	C	C	A	Food
225	KEYCORP	A	B	F	D	D	D	A	C	Banks
226	TEXTRON	B	B	B	F	B	D	D	C	Conglomerates
227	MORTON INTERNATIONAL	D	D	C	B	C	B	B	B	Chemicals
228	COSTCO	A	D	C	C	C	B	F	C	Discount & Fashion Retailing
229	AT&T	F	D	D	F	A	C	B	A	Telecommunications
230	LOUISIANA LAND & EXPLORATION	D	D	D	D	A	A	B	B	Fuel
231	RUSSELL	B	C	C	C	A	C	C	D	Consumer Products
232	FEDERAL EXPRESS	B	D	B	C	D	B	F	D	Transportation
233	CSX	D	F	D	D	A	B	C	B	Transportation
234	CABLETRON SYSTEMS	F	D	A	A	D	B	A	B	Office Equipment & Computers
235	PHELPS DODGE	C	D	F	B	F	A	A	B	Metals & Mining
236	AMERADA HESS	D	D	A	B	D	F	C	B	Fuel
237	CUC INTERNATIONAL	D	B	A	A	C	C	C	D	Service Industries
238	CHUBB	C	C	D	D	D	B	B	D	Nonbank Financial
239	BIOMET	F	D	C	B	B	C	A	B	Health Care
240	AMERICAN STORES	A	B	C	F	C	C	F	C	Food
241	EATON	B	D	D	B	D	B	D	C	Electrical & Electronics
242	SYSCO	D	D	B	C	C	C	F	B	Food
243	USF&G	B	C	D	F	B	B	C	C	Nonbank Financial
244	KROGER	A	B	C	D	C	B	F	F	Food
245	DRESSER INDUSTRIES	C	C	B	C	B	D	D	B	Manufacturing
246	FORD MOTOR	C	F	C	C	C	C	D	C	Automotive
247	TRINOVA	B	F	C	C	C	A	D	A	Manufacturing
248	TEKTRONIX	D	B	B	B	C	C	D	C	Electrical & Electronics
249	ALBERTSON'S	D	D	C	C	C	C	D	A	Food
250	LIZ CLAIBORNE	B	B	C	F	B	C	C	C	Consumer Products
251	CINERGY	C	C	C	D	D	B	B	D	Utilities
252	FEDERATED DEPARTMENT STORES	C	C	D	A	A	D	F	F	Discount & Fashion Retailing
253	CONRAIL	A	B	D	F	A	C	B	D	Transportation
254	SIGMA-ALDRICH	C	D	C	B	C	C	A	C	Service Industries
255	MALLINCKRODT	D	F	C	C	B	A	B	C	Health Care
256	TEXAS UTILITIES	D	D	B	D	D	B	A	D	Utilities
257	CENTRAL & SOUTH WEST	D	F	A	B	C	C	C	F	Utilities
258	CORNING	B	C	B	F	D	F	B	A	Manufacturing
259	W. W. GRAINGER	C	D	C	C	C	C	C	C	Service Industries
260	AON	C	B	B	F	B	D	B	D	Nonbank Financial

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In spite of all the talk about the Internet, intranets and now, extranets, is anyone seriously talking security? Not for credit card numbers or shopping, but for mission-critical data and business intelligence whose loss can sink a company faster than the Titanic. Because, with too many vendors supplying too many pieces, it creates too many problems.

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PERFORMANCE GRADES

INDUSTRY GROUP

		1-YR RET. % YEAR	TOTAL RET. % YEAR	1-YR GROWTH YEAR	SALES GROWTH YR	PROFIT GROWTH YEAR	PROFIT GROWTH YEAR	NET INC. % YEAR	RETURN ON EQUITY	
261	VF	B	C	D	D	A	D	C	C	Consumer Products
262	NICOR	B	C	A	F	B	D	C	B	Utilities
263	TORCHMARK	C	D	C	F	B	D	A	B	Nonbank Financial
264	GENUINE PARTS	D	D	C	C	C	C	C	B	Service Industries
265	MEREDITH	D	A	F	D	B	A	C	B	Publishing & Broadcasting
266	UST	D	D	C	C	C	C	A	A	Consumer Products
267	HERSHEY FOODS	C	B	C	D	D	D	C	A	Food
268	TIMES MIRROR	A	A	F	F	D	A	C	D	Publishing & Broadcasting
269	KING WORLD PRODUCTIONS	F	F	B	B	C	C	A	B	Leisure Time Industries
270	GENERAL DYNAMICS	C	C	B	D	C	D	C	C	Aerospace & Defense
271	CIRCUIT CITY STORES	D	C	B	A	D	D	F	C	Consumer Products
272	DANA	D	D	D	B	C	A	D	B	Automotive
273	MASCO	B	F	B	F	A	C	B	B	Housing & Real Estate
274	PALL	F	C	C	B	C	C	A	B	Conglomerates
275	FREEPORT-McMORAN COPPER & GOLD	D	INC	D	A	D	A	A	C	Metals & Mining
276	CENTEX	A	F	A	D	A	D	F	D	Housing & Real Estate
277	FOSTER WHEELER	F	F	A	B	A	D	F	D	Service Industries
278	PEP BOYS-MANNY, MOE & JACK	D	D	A	B	B	C	D	C	Discount & Fashion Retailing
279	HARCOURT GENERAL	C	D	B	D	C	B	C	B	Conglomerates
280	CASE	D	INC	D	B	C	A	C	B	Manufacturing
281	NEW YORK TIMES	A	C	C	C	F	A	D	F	Publishing & Broadcasting
282	THOMAS & BETTS	C	C	B	A	F	A	D	F	Electrical & Electronics
283	B.F. GOODRICH	C	A	C	D	D	A	D	D	Chemicals
284	WM. WRIGLEY JR.	D	C	D	C	C	C	A	A	Food
285	MAY DEPARTMENT STORES	C	D	B	F	C	D	C	B	Discount & Fashion Retailing
286	GENERAL MOTORS	C	F	D	D	D	B	D	A	Automotive
287	LSI LOGIC	F	A	F	A	F	A	A	D	Electrical & Electronics
288	BELL ATLANTIC	D	C	F	F	D	C	A	A	Telecommunications
289	ROCKWELL INTERNATIONAL	C	C	B	F	B	D	D	D	Conglomerates
290	PACIFICORP	D	D	A	D	D	D	A	D	Utilities
291	NORFOLK SOUTHERN	C	D	D	F	C	C	A	C	Transportation
292	RAYTHEON	F	C	D	C	D	D	C	B	Electrical & Electronics
293	KERR-McGEE	D	C	B	F	D	A	B	C	Fuel
294	PEOPLES ENERGY	C	D	A	F	A	C	B	C	Utilities
295	HILTON HOTELS	D	C	B	B	D	B	B	D	Leisure Time Industries
296	SOUTHERN	F	D	B	C	C	D	A	D	Utilities
297	UNION PACIFIC RESOURCES GROUP	F	INC	A	B	D	F	A	B	Fuel
298	MICRON TECHNOLOGY	F	A	F	A	F	B	B	D	Electrical & Electronics
299	SAFECO	C	C	D	D	C	D	B	D	Nonbank Financial
300	PHARMACIA & UPJOHN	F	B	D	A	D	C	C	D	Health Care

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PERFORMANCE GRADES

INDUSTRY GROUP

		TOTAL RETURN (1 YEAR)	TOTAL RETURN (3 YEAR)	SALES GROWTH (1 YEAR)	SALES GROWTH (3 YEAR)	PROFIT GROWTH (1 YEAR)	PROFIT GROWTH (3 YEAR)	NET MARGIN	RETURN ON EQUITY	
301	ITT	D	INC	D	B	B	A	D	D	Leisure Time Industries
302	COOPER INDUSTRIES	C	D	B	D	C	D	C	B	Electrical & Electronics
303	HARRIS	C	C	C	D	B	B	D	C	Electrical & Electronics
304	WHITMAN	D	C	C	C	C	C	D	A	Conglomerates
305	TRANSAMERICA	C	B	D	C	D	D	C	D	Nonbank Financial
306	PERKIN-ELMER	A	B	C	C	D	F	D	C	Electrical & Electronics
307	GREAT WESTERN FINANCIAL	A	A	F	C	F	B	D	F	Nonbank Financial
308	STANLEY WORKS	B	B	D	D	A	D	D	C	Manufacturing
309	FPL GROUP	D	C	C	D	C	C	B	D	Utilities
310	REEBOK INTERNATIONAL	A	C	F	D	D	F	D	A	Consumer Products
311	PEPSICO	D	B	D	C	F	F	D	C	Consumer Products
312	ST. JUDE MEDICAL	D	A	C	A	F	D	B	D	Health Care
313	ASHLAND	C	F	C	C	A	F	F	F	Fuel
314	BROWN-FORMAN	C	C	D	D	C	D	B	A	Consumer Products
315	AMERICAN ELECTRIC POWER	D	C	D	D	C	C	B	D	Utilities
316	VIACOM	F	D	B	A	C	D	F	F	Leisure Time Industries
317	MONSANTO	A	A	D	D	F	D	D	D	Chemicals
318	CVS	A	C	B	F	D	F	D	C	Health Care
319	ECHLIN	F	D	B	A	D	C	D	C	Automotive
320	UNICOM	F	F	F	C	C	A	B	D	Utilities
321	WORLDCOM	B	B	A	A	F	F	F	F	Telecommunications
322	FRUIT OF THE LOOM	A	C	D	C	D	D	C	C	Consumer Products
323	SOUTHWEST AIRLINES	F	F	A	B	B	C	C	C	Transportation
324	LIMITED	D	F	B	D	F	C	D	B	Discount & Fashion Retailing
325	EDISON INTERNATIONAL	B	C	D	F	D	D	B	D	Utilities
326	AMERICAN GREETINGS	C	F	C	D	A	D	C	D	Leisure Time Industries
327	NUCOR	F	F	C	B	D	B	C	C	Metals & Mining
328	PACIFIC ENTERPRISES	C	B	C	F	C	D	B	C	Utilities
329	WESTERN ATLAS	C	INC	B	C	B	C	D	D	Fuel
330	ARMSTRONG WORLD INDUSTRIES	C	D	F	F	A	D	C	B	Consumer Products
331	PULTE	C	F	B	B	B	D	F	F	Housing & Real Estate
332	BURLINGTON RESOURCES	C	F	A	F	D	D	A	D	Fuel
333	LAIDLAW	B	A	F	D	D	B	C	F	Service Industries
334	OHIO EDISON	D	D	F	F	C	A	A	D	Utilities
335	ITT INDUSTRIES	D	C	F	F	A	F	F	A	Conglomerates
336	KELLOGG	F	C	F	F	C	F	C	A	Food
337	NALCO CHEMICAL	C	F	C	F	C	D	B	B	Chemicals
338	ALCAN ALUMINUM	C	C	F	F	D	A	D	F	Metals & Mining
339	EASTMAN CHEMICAL	F	C	F	C	F	B	C	A	Chemicals
340	SAFETY-KLEEN	B	D	C	D	B	C	C	C	Service Industries

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PERFORMANCE GRADES

INDUSTRY GROUP

	TOTAL RET. IN 1 YEAR	TOTAL RET. IN (3 YEARS)	SALES GROWTH 1 YEAR	SALES GROWTH 3 YEARS	PROFIT GROWTH (1 YEAR)	PROFIT GROWTH (3 YEARS)	NET MARGIN	RETURN ON EQUITY	
341 ALLTEL	D	D	D	C	D	D	B	C	Telecommunications
342 LONGS DRUG STORES	C	C	C	D	B	D	F	D	Health Care
343 HASBRO	C	D	D	D	B	D	C	D	Leisure Time Industries
344 GUIDANT	B	INC	B	C	F	C	C	C	Health Care
345 LINCOLN NATIONAL	D	C	D	F	C	C	C	D	Nonbank Financial
346 ENTERGY	F	F	B	B	D	D	C	F	Utilities
347 MOTOROLA	D	F	D	A	F	D	D	D	Electrical & Electronics
348 INCO	C	C	F	B	D	A	D	F	Metals & Mining
349 MILLIPORE	D	B	D	B	F	D	C	B	Electrical & Electronics
350 MANOR CARE	D	C	A	C	D	D	D	D	Health Care
351 DUKE POWER	F	D	D	D	C	D	A	D	Utilities
352 FLEETWOOD ENTERPRISES	D	D	C	C	B	D	F	B	Housing & Real Estate
353 ENSERCH	A	D	B	D	A	F	F	F	Utilities
354 CAROLINA POWER & LIGHT	D	C	F	F	C	D	A	C	Utilities
355 MAYTAG	D	D	F	F	D	B	D	A	Consumer Products
356 CONSOLIDATED EDISON CO. OF N.Y.	D	D	C	D	D	D	B	D	Utilities
357 PACCAR	B	D	F	D	D	C	D	C	Automotive
358 DOW JONES	D	F	C	C	D	C	C	D	Publishing & Broadcasting
359 NATIONAL SERVICE INDUSTRIES	C	C	D	D	C	C	D	C	Electrical & Electronics
360 CONAGRA	B	B	D	D	F	F	F	D	Food
361 HOUSTON INDUSTRIES	D	D	B	F	D	D	B	D	Utilities
362 UNUM	B	C	F	D	D	D	C	D	Nonbank Financial
363 DATA GENERAL	C	A	B	C	D	F	F	D	Office Equipment & Computers
364 INTERNATIONAL PAPER	C	D	D	B	F	C	F	F	Paper & Forest Products
365 WINN-DIXIE STORES	F	D	D	D	D	D	F	B	Food
366 H.F. AHMANSON	A	A	F	D	F	F	D	F	Nonbank Financial
367 HERCULES	F	D	F	F	D	B	A	A	Chemicals
368 NACCO INDUSTRIES	F	F	D	B	D	A	F	C	Manufacturing
369 BALTIMORE GAS & ELECTRIC	D	C	C	D	D	D	B	D	Utilities
370 GREAT ATLANTIC & PACIFIC TEA	B	D	F	F	A	F	F	D	Food
371 ASARCO	D	D	F	A	D	A	D	F	Metals & Mining
372 ARCHER DANIELS MIDLAND	D	D	C	C	F	D	D	F	Food
373 TEMPLE-INLAND	B	F	F	C	F	A	D	F	Containers & Packaging
374 JAMES RIVER CORP. OF VIRGINIA	C	B	F	C	B	F	F	F	Paper & Forest Products
375 AMERICAN BRANDS	C	B	F	F	D	F	B	C	Consumer Products
376 EASTERN ENTERPRISES	F	C	C	F	D	B	C	C	Utilities
377 W.R. GRACE	C	B	F	F	D	F	C	B	Chemicals
378 CINCINNATI MILACRON	F	F	D	A	F	A	D	C	Manufacturing
379 AMP	F	D	D	B	F	D	D	D	Electrical & Electronics
380 GIANT FOOD	D	D	D	D	B	D	F	C	Food

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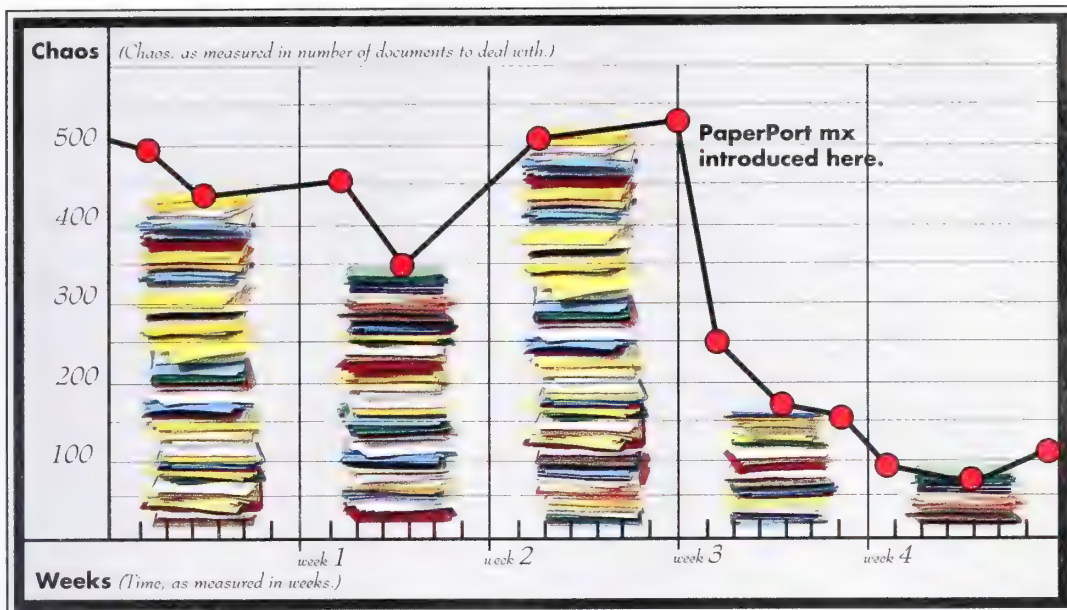
**DVD
VIDEO**

THE S&P 500

Business Week's Performance Rankings

		PERFORMANCE GRADES							INDUSTRY GROUP	
		TOTAL RETURN 1 YEAR	TOTAL RETURN (3 YEARS)	SALES VS. 1 YEAR	SALES VS. 1 YEAR	PROFIT VS. 1 YEAR	PROFIT VS. 1 YEAR (3 YEARS)	NET DEBT VS. 1 YEAR		RETURN ON EQUITY
381	DOMINION RESOURCES	D	D	D	D	C	D	B	D	Utilities
382	GPU	D	C	D	D	F	C	B	D	Utilities
383	USLIFE	A	B	D	D	F	D	D	F	Nonbank Financial
384	SPRINGS INDUSTRIES	D	D	F	D	B	B	D	D	Manufacturing
385	PP&L RESOURCES	F	D	C	F	C	D	A	D	Utilities
386	USX-U.S. STEEL GROUP	F	F	D	D	D	B	D	B	Metals & Mining
387	C.R. BARD	F	F	D	C	C	C	C	C	Health Care
388	NORTHERN STATES POWER	F	D	D	D	D	C	B	D	Utilities
389	TRW	C	C	D	C	F	D	F	D	Conglomerates
390	WILLAMETTE INDUSTRIES	C	F	F	B	F	B	C	D	Paper & Forest Products
391	ALLERGAN	F	C	C	C	C	F	C	D	Health Care
392	WESTVACO	F	D	F	C	F	A	C	D	Paper & Forest Products
393	AETNA	C	C	B	F	F	F	F	F	Nonbank Financial
394	BARRICK GOLD	F	F	D	A	D	D	A	F	Metals & Mining
395	PENNZOIL	A	D	F	F	D	D	D	C	Fuel
396	INTL. FLAVORS & FRAGRANCES	F	D	F	D	D	D	A	B	Chemicals
397	WORTHINGTON INDUSTRIES	D	F	B	C	D	D	D	D	Metals & Mining
398	BLACK & DECKER	D	C	D	F	F	B	D	D	Manufacturing
399	J.C. PENNEY	D	F	B	D	F	F	F	D	Discount & Fashion Retailing
400	MEAD	D	D	F	D	F	A	D	D	Paper & Forest Products
401	ORYX ENERGY	A	D	D	F	C	F	A	F	Fuel
402	DILLARD DEPARTMENT STORES	F	F	C	D	A	D	D	F	Discount & Fashion Retailing
403	RUBBERMAID	F	F	F	D	A	F	C	C	Manufacturing
404	CUMMINS ENGINE	B	F	F	C	F	D	D	C	Automotive
405	TEXAS INSTRUMENTS	A	B	F	D	F	F	F	F	Electrical & Electronics
406	SUPERVALU	D	F	F	F	C	C	F	C	Food
407	HARRAH'S ENTERTAINMENT	F	F	D	C	B	D	C	C	Leisure Time Industries
408	NEWMONT MINING	F	F	A	D	D	D	B	D	Metals & Mining
409	WMX TECHNOLOGIES	C	D	D	F	D	D	D	D	Service Industries
410	HUMANA	F	F	A	A	F	F	F	F	Health Care
411	PUBLIC SERVICE ENTERPRISE GROUP	D	D	D	F	D	D	B	D	Utilities
412	TANDY	C	D	C	B	F	F	F	D	Consumer Products
413	UNION ELECTRIC	F	D	D	D	D	D	A	D	Utilities
414	TIME WARNER	F	F	A	B	F	F	F	F	Publishing & Broadcasting
415	COOPER TIRE & RUBBER	F	F	C	C	D	D	C	C	Automotive
416	REYNOLDS METALS	B	D	F	B	F	F	F	F	Metals & Mining
417	DELTA AIR LINES	D	C	C	F	F	F	F	F	Transportation
418	CHAMPION INTERNATIONAL	D	D	F	C	F	A	F	F	Paper & Forest Products
419	TENNECO	F	F	A	F	D	F	D	C	Conglomerates
420	MERCANTILE STORES	D	D	D	D	D	C	D	D	Discount & Fashion Retailing

THE BUSINESS STRESS-REDUCTION INDEX



Sharp drop in chaos; Analysts suspect new PaperPort mx.

REDUCE ISSUES DOWN TO THEIR ESSENTIALS.

The first step in reducing stress is to rid yourself of unnecessary paper. PaperPort mx can scan thousands of words in minutes—from virtually any type of document. Reports. Memos. Letters. Newspaper articles. So you can more easily deal with them. The result is higher productivity. For instance, Toyota's U.S. marketing division deployed PaperPort in its organization and expects to save considerable time and money.

BE THE GREAT COMMUNICATOR.

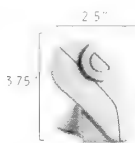
Use PaperPort mx to scan wads of information directly into reports, proposals, and e-mails. It will even let you send information over the Net—for instance, that contract (or invoice) that needs immediate attention

IMPROVE YOUR TIME-MANAGEMENT SKILLS.

Rid your world of unnecessary and time-consuming tasks. For example, retyping PaperPort mx can handle it for you. Simply take the document you want to retype, and scan it with PaperPort mx. Then PaperPort mx's integrated Xerox TextBridgeSM OCR software converts these words to digital format so they can be edited or copied. Literally saving you hours

MEASURABLE OPERATING RESULTS.

Ah, here's a bonus PaperPort mx can accomplish all of these things—without hogging space on your desk. It's sleek and small and fits right between your keyboard and monitor



MANAGE TECHNOLOGY.

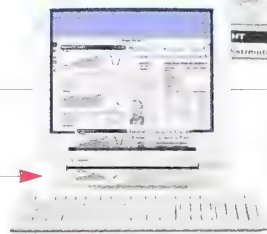
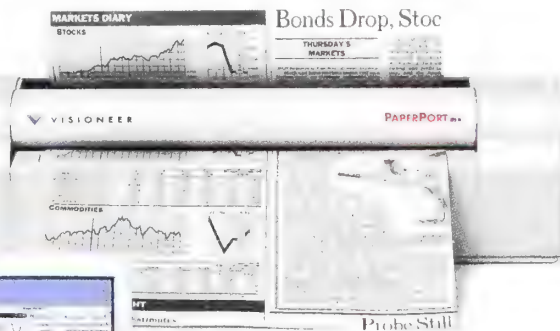
Here's a secret about how to get the technology you have to work harder. Say you want to send a fax Scan in your document using PaperPort mx, then send a fax using your computer's modem. It saves time [you'll never again have to trek down the hall to fax something]. And it's usually cheaper, to boot

SIMPLIFY OPERATIONAL STRUCTURES AND SYSTEMS.

For instance, your archaic filing system. Instead, use PaperPort mx. Filing things digitally on your computer takes up far less space, but more than that, it helps you pinpoint a specific document later. Just type in a keyword, and PaperPort mx will retrieve it for you

ORCHESTRATE THE PROGRAM FOR CHANGE.

Don't let its compact size fool you. PaperPort mx is tough enough for even the toughest business environment. For one, it's fully compatible with Windows NT. And at a new lower price, even the most stringent bean counters in your company will be pleased



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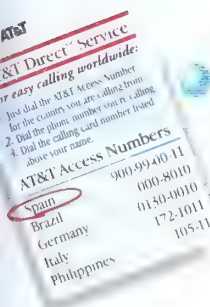
THE S&P 500

Business Week's Performance Rankings

		PERFORMANCE GRADES								INDUSTRY GROUP
		TOTAL RETURN (1 YEAR)	TOTAL RET. RN (3 YEARS)	SALES GROWTH (1 YEAR)	SALES GROWTH (3 YEARS)	PROFIT GROWTH (1 YEAR)	PROFIT GROWTH (3 YEARS)	NET MARGIN	RETURN ON EQUITY	
421	NORDSTROM	F	F	C	C	D	D	D	D	Discount & Fashion Retailing
422	TELE-COMMUNICATIONS	F	F	A	A	F	F	F	F	Publishing & Broadcasting
423	SUN	F	F	B	B	F	F	F	F	Fuel
424	PECO ENERGY	F	F	D	F	D	D	A	D	Utilities
425	UNION CAMP	D	F	F	C	F	A	F	F	Containers & Packaging
426	COMCAST	F	F	A	A	F	F	F	F	Publishing & Broadcasting
427	NIAGARA MOHAWK POWER	B	F	F	F	B	F	D	F	Utilities
428	KMART	A	F	F	F	D	F	F	F	Discount & Fashion Retailing
429	SILICON GRAPHICS	F	F	A	A	F	F	F	F	Office Equipment & Computers
430	BRIGGS & STRATTON	D	D	F	F	C	D	C	B	Manufacturing
431	MOORE	C	D	F	D	F	C	C	D	Office Equipment & Computers
432	WEYERHAEUSER	D	F	F	D	F	D	D	D	Paper & Forest Products
433	RYDER SYSTEM	C	D	C	C	F	F	F	F	Transportation
434	GREAT LAKES CHEMICAL	F	F	F	C	D	D	B	B	Chemicals
435	TOYS 'R' US	D	F	C	C	F	F	F	F	Discount & Fashion Retailing
436	QUAKER OATS	D	D	F	F	F	D	D	B	Food
437	ITT HARTFORD GROUP	A	INC	D	D	F	F	F	F	Nonbank Financial
438	JOSTENS	F	D	C	F	F	F	D	A	Manufacturing
439	BEVERLY ENTERPRISES	B	F	D	D	D	D	F	F	Health Care
440	US WEST MEDIA GROUP	F	INC	A	A	F	F	F	F	Publishing & Broadcasting
441	DTE ENERGY	F	D	F	F	D	F	B	D	Utilities
442	EG&G	F	D	F	D	D	D	D	C	Service Industries
443	AUTODESK	D	D	F	D	F	F	B	C	Office Equipment & Computers
444	BROWNING-FERRIS INDUSTRIES	D	D	F	A	F	F	F	F	Service Industries
445	GOODYEAR TIRE & RUBBER	C	D	F	D	F	F	F	F	Automotive
446	GENERAL INSTRUMENT	F	F	B	A	F	F	F	F	Electrical & Electronics
447	PG&E	F	F	F	F	F	D	C	F	Utilities
448	ADVANCED MICRO DEVICES	A	C	F	D	F	F	F	F	Electrical & Electronics
449	WHIRLPOOL	F	F	D	D	D	F	F	D	Consumer Products
450	H&R BLOCK	F	F	B	B	F	F	F	F	Nonbank Financial
451	BAY NETWORKS	F	F	A	A	F	F	F	F	Office Equipment & Computers
452	WESTINGHOUSE ELECTRIC	F	D	A	F	F	F	F	F	Electrical & Electronics
453	POTLATCH	D	F	F	D	F	B	D	F	Paper & Forest Products
454	WOOLWORTH	A	F	F	F	F	F	F	F	Discount & Fashion Retailing
455	JOHN H. HARLAND	B	D	C	D	F	F	F	F	Office Equipment & Computers
456	SCIENTIFIC-ATLANTA	D	D	F	B	F	D	F	F	Telecommunications
457	ADOLPH COORS	D	D	D	F	D	F	F	F	Consumer Products
458	DARDEN RESTAURANTS	F	INC	F	F	A	F	F	F	Leisure Time Industries
459	AMDAHL	B	B	C	F	F	F	F	F	Office Equipment & Computers
460	GEORGIA-PACIFIC	C	F	F	F	F	F	F	F	Paper & Forest Products



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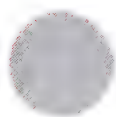
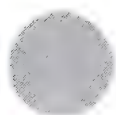
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THE S&P 500

Business Week's Performance Rankings

		PERFORMANCE GRADES							INDUSTRY GROUP
		TOTAL RETURN (1 YEAR)	TOTAL RETURN (3 YEARS)	SALES GROWTH (1 YEAR)	SALES GROWTH (3 YEARS)	PROFIT GROWTH (1 YEAR)	PROFIT GROWTH (3 YEARS)	NET MARGIN	
61	FLEMING	F	F	F	C	F	F	F	Food
62	KAUFMAN & BROAD HOME	F	F	A	B	F	F	F	Housing & Real Estate
63	R.R. DONNELLEY	F	F	D	B	F	F	F	Service Industries
64	DELUXE	D	F	D	D	F	F	D	Office Equipment & Computers
65	CYPRUS AMAX MINERALS	F	F	F	B	F	F	F	Metals & Mining
66	SANTA FE PACIFIC GOLD	D	INC	F	B	F	F	C	Metals & Mining
67	BOISE CASCADE	F	D	F	C	F	F	F	Paper & Forest Products
68	NATIONAL SEMICONDUCTOR	A	D	F	D	F	F	F	Electrical & Electronics
69	OWENS CORNING	D	F	C	C	F	F	F	Housing & Real Estate
70	NOVELL	F	F	F	F	F	B	B	Office Equipment & Computers
71	POLAROID	D	C	D	F	D	F	F	Leisure Time Industries
72	ARMCO	F	F	B	F	C	F	F	Metals & Mining
73	TANDEM COMPUTERS	B	F	D	F	F	F	F	Office Equipment & Computers
74	BAUSCH & LOMB	F	F	F	F	D	D	D	Health Care
75	UNISYS	D	F	F	F	D	F	F	Office Equipment & Computers
76	McDERMOTT INTERNATIONAL	D	F	D	D	F	F	F	Manufacturing
77	PLACER DOME	F	F	B	C	F	F	F	Metals & Mining
78	BATTLE MOUNTAIN GOLD	F	F	C	A	F	F	F	Metals & Mining
79	STRIDE RITE	A	F	F	F	D	F	F	Consumer Products
80	HOMESTAKE MINING	F	F	D	F	D	F	D	Metals & Mining
81	NAVISTAR INTERNATIONAL	F	F	F	D	F	F	F	Automotive
82	INLAND STEEL INDUSTRIES	F	F	F	D	F	F	F	Metals & Mining
83	GIDDINGS & LEWIS	F	F	D	B	F	F	F	Manufacturing
84	DSC COMMUNICATIONS	F	F	F	A	F	F	F	Telecommunications
85	DIGITAL EQUIPMENT	F	F	F	F	F	F	F	Office Equipment & Computers
86	CALIBER SYSTEM	F	F	B	F	F	F	F	Transportation
87	BALL	F	F	C	F	F	F	F	Containers & Packaging
88	DUN & BRADSTREET	D	D	F	F	F	F	F	Service Industries
89	APPLE COMPUTER	F	F	F	D	F	F	F	Office Equipment & Computers
90	STONE CONTAINER	F	F	F	D	F	F	F	Containers & Packaging
91	CHARMING SHOPPES	B	F	F	F	F	F	F	Discount & Fashion Retailing
92	BETHLEHEM STEEL	F	F	F	F	F	F	F	Metals & Mining
93	LOUISIANA-PACIFIC	F	F	F	F	F	F	F	Paper & Forest Products
94	INTERGRAPH	F	F	F	F	F	F	F	Office Equipment & Computers
95	ECHO BAY MINES	F	F	F	F	F	F	F	Metals & Mining
IC	COGNIZANT	F	INC	B	INC	A	INC	B	Service Industries
IC	LUCENT TECHNOLOGIES	A	INC	B	INC	D	INC	D	Telecommunications
IC	SEAGRAM	C	C	INC	INC	INC	INC	D	Consumer Products
IC	TUPPERWARE	D	INC	D	INC	C	INC	A	Manufacturing
IC	UNILEVER NV	B	B	INC	INC	INC	INC	INC	Food

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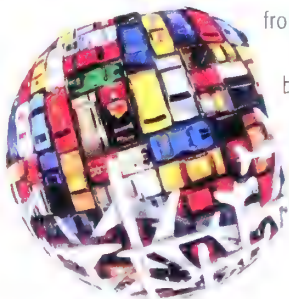
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BUSINESS WEEK'S INDUSTRY RANKINGS OF THE S&P 500

The S&P 500 represents a huge universe, accounting for some 69% of the market capitalization of all U.S. stocks. To find out how each of the companies in the index measures up against its peers, we ranked them within industry groups, using the same factors that go into the overall report card grades. The numbers used to derive those grades are shown in these tables, along with a wealth of additional financial information. Each company's rank within its industry is listed to the left of its name, followed by its overall rank. Taken together, they form a vivid picture of how well each company harnesses its resources, given the unique constraints of its industry.

GLOSSARY & FOOTNOTES

Companies on this list are from the Standard & Poor's 500. Each company is ranked by eight criteria; one-year total return, three-year total return, one-year sales growth, three-year average annual sales growth, one-year profit growth, three-year average annual profit growth, net profit margins, and return on equity, with additional weight given to a company's sales. A company's composite rank is calculated using the sum of all its ranks.

MARKET VALUE

Share price on Feb. 21, 1997 multiplied by the latest available common shares outstanding

ONE-YEAR TOTAL RETURN

Annual dividend per share, reinvested, plus Feb. 21, 1997 price per share, as a percent of Feb. 21, 1996 price per share

THREE-YEAR TOTAL RETURN

Annual dividend per share, reinvested, plus Feb. 21, 1997 price per share, as a percent of Feb. 22, 1994 price per share

SALES

Latest available sales through the most recent 12 months. Includes all sales and other operating revenues. For banks, this includes all banking operations revenues

THREE-YEAR SALES GROWTH

Calculated using the least squares method. Data for 1996 and 1995 is as reported by company in 1996

PROFITS

Latest available profits through the most recent 12 months. Net income from continuing operations before extraordinary items

THREE-YEAR PROFITS GROWTH

Calculated using the least squares method. Data for 1996 and 1995 is as reported by company in 1996. If results for the earliest year are negative, the average is for two years

NET MARGINS

Net income from continuing operations before extraordinary items as a percent of sales

RETURN ON INVESTED CAPITAL

Profits plus minority interest and interest expense (adjusted by tax rate) as a percent of debt and equity funds

RETURN ON EQUITY

Net income available for shareholders divided by total equity

RECENT SHARE PRICE

Price for a single share of a company's most widely traded issue of common stock as of the close of trading Feb. 21, 1997

HIGH/LOW PRICE

Trading range for the company's common stock, Feb. 21, 1996 to Feb. 21, 1997

P-E RATIO

Price-earnings ratio based on latest 12 months earnings and Feb. 21, 1997 stock price

DIVIDEND YIELD

Annual dividend rate as a percent of the Feb. 21 stock price

EARNINGS PER SHARE

Primary earnings per share, excluding extraordinary profit or loss, divided by number of common and common equivalent shares

EARNINGS PER SHARE ESTIMATES

Analysts' consensus estimates for 1997 compiled as of Feb. 13 by I/B/E/S International Inc., New York, N.Y. I/B/E/S is a registered trademark of I/B/E/S International Inc.

(a) Data as of September 1996

(b) Data as of October 1996

(c) Total return from May 20, 1996

(d) Total return from Oct. 17, 1996

(e) Total return from April 4, 1996

(f) Two-year growth rate

(x) Sales include excise taxes

(y) Sales include other income

(z) Sales include excise taxes and other income

NA=not available. NM=not meaningful.

NC=not calculable. INC=Incomplete

† Because BUSINESS WEEK is owned by McGraw-Hill, the S&P 500 Scoreboard does not include a forecast of the company's earnings.

Note: Data compiled by Standard & Poor's Compustat, a division of The McGraw-Hill Companies, from sources such as statistical services, registration statements, and company reports that SPC believes to be reliable but are not guaranteed by SPC or BUSINESS WEEK as to correctness or completeness. This material is not an offer to buy or sell any security.

Additional data: I/B/E/S International Inc., New York, N.Y. I/B/E/S is a registered trademark of I/B/E/S International Inc.

THE S&P 500

Business Week's Industry Ranking

			MARKET VALUE			SALES			PROFITABILITY	
			FEB. 21 1997 \$ MIL.	TOTAL RETURN 1 YEAR	TOTAL RET. %, (3 YEARS)	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995 %	4-YEAR AVERAGE CHANGE %	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995 %
1 AEROSPACE & DEFENSE										
INDUSTRY AVERAGE			15933.6	28.2	136.4	16425.7	10	7.0	773.3	143
1	29	LOCKHEED MARTIN	17838.8	14.2	131.9	26875.0	18	24.1	1347.0	98
2	134	UNITED TECHNOLOGIES	18056.3	47.1	136.1	23512.0y	3	4.1	906.0	21
3	169	MCDONNELL DOUGLAS	14370.8	46.1	242.9	13834.0	-3	-0.5	788.0	NM
4	182	NORTHROP GRUMMAN	4300.7	15.7	105.0	8071.0	18	15.2	234.0	-7
5	192	BOEING	36661.0	31.6	139.0	22681.0	16	-4.5	1095.0	179
6	270	GENERAL DYNAMICS	4374.0	14.7	63.7	3581.0	17	3.6	270.0	9
2 AUTOMOTIVE										
INDUSTRY AVERAGE			12895.0	13.0	7.9	41142.3	5	9.3	1420.0	1
1	69	CHRYSLER	24675.3	41.3	35.2	59333.0	16	10.8	3720.0	75
2	246	FORD MOTOR	39352.5	13.7	16.4	146991.0	7	10.3	4446.0	7
3	272	DANA	3181.0	2.0	17.6	7890.7	1	12.5	306.0	6
4	286	GENERAL MOTORS	44262.4	19.7	5.0	164068.9y	2	6.4	4953.0	-18
5	319	ECHLIN	2071.0	-4.1	21.3	3261.0	15	18.4	146.5	-6
6	357	PACCAR	2554.9	31.2	35.0	4316.8y	-6	6.3	201.0	-20
7	404	CUMMINS ENGINE	2063.9	31.3	6.9	5257.0	0	7.7	160.0	-29
8	415	COOPER TIRE & RUBBER	1703.8	-15.2	-20.8	1619.3	8	10.3	107.9	-4
9	445	GOODYEAR TIRE & RUBBER	8350.8	14.1	24.0	13112.7	0	4.3	101.7	-83
10	481	NAVISTAR INTERNATIONAL	734.2	-3.7	-61.2	5573.0	-12	5.9	58.0	-64
3 BANKS										
INDUSTRY AVERAGE			17815.1	53.8	148.4	8000.6	5	18.9	1117.9	13
1	9	MBNA	11736.1	91.0	303.4	2998.0a	26	33.4	435.3a	34
2	12	NATIONSBANK	34645.5	68.0	171.2	16376.0a	10	21.1	2330.0a	26
3	22	NORWEST	18481.1	44.1	124.2	8534.3	15	17.6	1153.9	21
4	26	FIRST BANK SYSTEM	10941.3	47.4	176.6	3026.1y	6	15.7	739.8	30
5	32	FIRST UNION	25541.7	55.7	149.6	10294.0y	11	31.0	1499.0	5
6	35	FIRST CHICAGO NBD	19082.7	47.2	133.7	9686.0y	-4	56.9	1436.0	25
7	46	FIFTH THIRD BANCORP	8828.8	73.4	193.1	1748.7	19	19.6	335.1	16
8	53	U.S. BANCORP	7378.4	65.4	109.4	2862.3y	2	20.2	478.9	46
9	59	NATIONAL CITY	11104.1	55.4	119.4	4047.1y	2	27.3	736.6	25
10	66	BANK OF NEW YORK	17495.0	56.4	225.1	5029.0y	1	13.2	1020.0	12
11	68	BANKAMERICA	41832.7	71.3	197.9	20025.0	5	12.5	2873.0	8
12	76	WELLS FARGO	28391.2	28.7	141.5	8508.0	62	20.1	1071.0	4
13	85	REPUBLIC NEW YORK	5164.1	59.0	104.3	2833.1y	16	13.5	418.8	45
14	86	CITICORP	56338.7	61.4	214.0	28818.0y	2	-0.3	3788.0	9
15	93	BANC ONE	19497.9	35.4	73.4	8978.1y	14	10.1	1426.5	12
16	94	PNC BANK	13937.1	45.4	75.7	6155.5y	-2	18.1	992.2	143
17	103	FLEET FINANCIAL GROUP	15407.9	53.1	99.9	8078.0a	5	40.9	932.0a	-19
18	110	BARNETT BANKS	9174.0	60.7	160.2	3748.8a	7	6.6	553.0a	6
19	111	BANK OF BOSTON	8571.4	61.2	247.2	5611.0y	-5	21.4	650.0	-4
20	112	CHASE MANHATTAN	45087.2	52.3	208.5	25000.0	-5	41.1	2461.0	-17
21	122	J.P. MORGAN	19625.0	37.7	75.1	10713.0y	8	13.5	1574.0	21

INVESTMENT DATA

NET MARGIN 1995	RETURN ON INVESTED CAPITAL	RETURN ON COMMON EQUITY	RECENT SHARE PRICE \$	12-MONTH HIGH/LOW \$	P-E RATIO	DIVIDEND YIELD	EARNINGS PER SHARE 1996	ESTIMATED EARNINGS PER SHARE 1997
2.1	10.2	16.1	81	87/59	19	1.62	4.28	5.22
3.0	7.0	18.7	89	97/73	13	1.80	6.80	7.33
3.3	13.2	18.5	76	78/50	22	1.63	3.45	3.98
2.9	13.0	25.9	68	72/43	19	0.71	3.64	4.19
3.7	4.5	11.0	75	84/58	17	2.15	4.33	5.84
2.0	9.0	11.1	108	115/74	34	1.04	3.19	5.40
8.1	14.8	16.2	69	76/57	16	2.36	4.27	4.57
3.6	8.1	19.8	38	44/31	12	2.85	3.17	3.98
4.1	19.8	32.1	35	36/26	7	4.56	5.03	5.28
3.0	2.4	16.4	33	37/29	9	4.65	3.72	4.06
3.7	9.3	21.4	31	36/27	10	3.20	3.01	3.11
3.8	8.9	22.3	59	64/46	10	3.42	6.07	7.45
5.5	8.5	14.1	33	39/30	14	2.64	2.38	2.55
5.5	5.8	14.8	66	74/45	13	3.80	5.17	6.07
4.3	10.6	12.8	52	55/37	13	1.91	4.01	4.04
7.6	12.6	13.7	21	27/18	16	1.66	1.30	1.64
4.6	2.0	2.7	54	56/42	81	2.08	0.66	4.86
2.6	1.5	3.1	10	12/8	25	NA	0.39	0.72
12.2	8.2	14.3	80	83/50	17	2.54	4.50	5.46
13.7	8.5	26.5	35	38/17	28	1.37	1.24	1.68
12.4	6.6	17.4	60	63/36	14	2.20	3.98	4.25
12.9	5.9	18.7	50	52/32	16	2.39	3.07	3.50
20.0	10.6	24.0	81	83/52	15	2.29	5.34	5.44
15.4	8.2	14.9	91	96/57	17	2.55	5.35	6.96
11.4	8.0	15.6	61	63/37	14	2.63	4.39	4.99
19.5	13.8	15.6	83	85/46	26	1.39	3.22	3.75
11.8	9.7	17.2	50	51/29	16	2.47	3.08	3.38
14.9	10.0	16.5	50	52/32	15	3.30	3.29	3.61
18.3	13.4	19.7	39	41/23	16	2.24	2.47	2.73
14.0	7.1	12.1	118	123/66	16	2.07	7.31	8.32
19.7	5.0	7.1	310	318/214	25	1.68	12.21	17.33
11.8	5.3	12.0	94	97/56	13	1.96	6.97	7.68
12.3	9.2	17.5	122	127/72	16	1.73	7.50	8.47
16.2	12.3	16.7	46	48/31	14	3.32	3.23	3.36
6.5	5.5	16.9	43	44/28	15	3.44	2.90	3.31
15.0	5.7	9.5	59	62/38	23	3.06	2.57	4.79
14.9	12.1	16.5	48	50/28	17	2.25	2.82	3.19
11.5	8.1	12.9	74	77/45	19	2.37	3.99	5.78
11.3	6.4	10.4	103	106/63	20	2.19	5.02	8.67
13.0	6.1	12.7	106	110/76	14	3.32	7.63	7.90



Aces of Plastic

MBNA rose to the top of the banking group—one of the S&P's best-performing industries overall—thanks to its skill with plastic. Credit cards, that is. It concentrates on the crème de la crème of the market: affinity groups united by a common interest or profession. That and careful credit screening keeps delinquencies low. “We are on the old-fashioned side,” says President Charles M. Cawley. “We still have people with green eye-shades making the credit decisions on every individual.”

FOOTNOTES TO TABLES APPEAR ON PAGE 119;
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BEGINS ON PAGE 152

THE S&P 500

Business Week's Industry Ranking

			MARKET VALUE			SALES			PROFITABILITY	
			FEB. 21 1997 \$ MIL.	TOTAL RET. 1995- 96 %	TOTAL RETURN (3 YEARS)	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995	1-YEAR AVERAGE CHANGE	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995
22	130	SUNTRUST BANKS	11684.9	45.2	149.8	3994.3	8	10.2	616.6	9
23	146	CORESTATES FINANCIAL	11766.2	28.8	127.1	3405.1a	-3	22.5	590.6a	3
24	159	WACHOVIA	10240.3	36.9	117.5	3713.4y	1	12.8	644.6	7
25	170	MELLON BANK	10549.1	54.4	154.2	3250.0y	0	1.5	733.0	6
26	178	BANKERS TRUST NEW YORK	7379.6	53.8	36.8	8072.0y	11	11.4	612.0	185
27	180	COMERICA	6679.2	61.7	158.6	2836.7y	-1	12.9	417.2	1
28	225	KEYCORP	12262.0	54.9	108.9	5676.0	-4	5.0	783.0	-1

4 CHEMICALS

INDUSTRY AVERAGE			10372.0	11.8	66.4	7266.1	3	6.2	605.5	-1
1	58	DUPONT	60499.1	41.3	115.1	43810.0z	4	5.8	3636.0	10
2	72	PRAXAIR	7802.7	36.0	184.9	4449.0	41	21.6	282.0	8
3	137	AIR PRODUCTS & CHEMICALS	8957.0	43.4	61.6	4181.9	7	7.9	426.9	15
4	154	ROHM & HAAS	5741.3	29.3	67.5	3982.0	3	7.1	363.0	24
5	172	UNION CARBIDE	5894.1	6.0	95.8	6106.0	4	10.7	593.0	-36
6	211	ENGELHARD	3200.7	4.6	29.3	3184.4y	12	14.5	150.4	9
7	217	DOW CHEMICAL	19257.2	7.0	35.8	20053.0y	-1	3.3	1907.0	1
8	227	MORTON INTERNATIONAL	5709.8	6.1	21.2	3742.8y	7	13.5	334.2	2
9	283	B.F. GOODRICH	2261.4	16.4	127.1	2238.8	9	5.7	106.2	-4
10	317	MONSANTO	22124.3	44.4	161.6	9262.0	3	5.7	385.0	-48
11	337	NALCO CHEMICAL	2466.9	18.9	10.2	1303.5	7	-2.9	145.9	8
12	339	EASTMAN CHEMICAL	4312.1	-15.7	42.7	4782.0	-5	7.9	380.0	-32
13	367	HERCULES	4798.4	-20.1	26.4	2060.2	-15	-9.9	324.9	-2
14	377	W.R. GRACE	5037.0	20.0	92.4	3454.1y	-3	-6.1	213.8	NM
15	396	INTL. FLAVORS & FRAGRANCES	5097.8	-6.1	33.2	1436.1	0	6.8	189.9	-24
16	434	GREAT LAKES CHEMICAL	2792.3	-42.8	-42.5	2211.7	-6	8.0	250.3	-15

5 CONGLOMERATES

INDUSTRY AVERAGE			21005.8	20.5	71.3	12813.7	10	0.1	904.2	10
1	42	GENERAL ELECTRIC	173080.0	38.0	110.8	79178.9	13	10.6	7280.0	11
2	120	ALLEGHENY TELEDYNE	4593.7	89.7	164.5	3815.6	-6	19.8	226.5	-18
3	144	ALLIEDSIGNAL	20679.8	37.8	94.7	13971.0	-3	6.3	1020.0	17
4	202	IKON OFFICE SOLUTIONS	5854.2	19.3	103.4	4339.6	31	-16.9	172.6	39
5	226	TEXTRON	8292.9	27.6	78.3	9274.0y	10	-0.7	482.0	16
6	274	PALL	2752.6	-13.4	47.0	970.9	8	13.3	136.5	6
7	279	HARCOURT GENERAL	3360.4	17.0	35.9	3360.2y	9	4.9	188.9	5
8	289	ROCKWELL INTERNATIONAL	14606.0	13.9	65.7	10596.0	18	-2.9	582.0	19
9	304	WHITMAN	2527.7	7.2	61.1	3111.3	6	7.5	139.4	4
10	335	ITT INDUSTRIES	3085.7	0.0	52.8	8718.2	-2	-22.3	222.6	960
11	389	TRW	6556.2	20.1	54.3	9857.1	3	7.2	182.4	-54
12	419	TENNECO	6680.8	-11.4	-12.4	6572.0	26	-23.8	218.0	-16

6 CONSUMER PRODUCTS

INDUSTRY AVERAGE			20568.5	34.6	93.5	9025.7	6	7.0	760.1	14
1	7	NIKE	21194.8	120.4	493.0	7801.9	39	27.3	673.1	38
2	25	COCA-COLA	154315.6	53.0	204.1	18546.0	3	10.1	3492.0	17

INVESTMENT DATA

NET MARGIN 1995	RETURN ON INVESTED CAPITAL	RETURN ON COMMON EQUITY	RECENT SHARE PRICE \$	12-MONTH HIGH/LOW \$	P-E RATIO	DIVIDEND YIELD	EARNINGS PER SHARE 1996	ESTIMATED EARNINGS PER SHARE 1997
15.3	9.6	12.6	53	55/33	19	1.70	2.76	3.02
16.4	9.0	14.6	53	55/36	17	3.53	3.05	4.28
16.4	6.5	17.3	63	64/40	16	2.56	3.81	4.16
21.3	9.5	18.4	82	85/51	16	2.93	5.17	5.79
2.9	3.2	10.7	93	96/63	14	4.30	6.78	7.63
14.4	6.0	15.6	62	63/37	18	2.76	3.55	4.61
13.4	8.1	15.9	55	56/35	16	3.06	3.37	4.22
8.7	13.8	23.4	55	64/42	16	2.04	3.33	3.75
7.8	22.5	36.3	108	114/73	17	2.12	6.47	7.18
8.3	6.7	14.1	50	52/34	28	0.88	1.77	2.60
9.5	9.1	16.6	75	77/52	19	1.47	3.84	3.78
7.5	15.3	20.3	90	92/55	16	2.01	5.45	6.17
15.7	16.1	27.5	46	50/36	11	1.62	4.28	4.82
4.8	12.5	18.1	22	26/18	21	1.62	1.05	1.24
9.4	13.4	24.1	79	93/70	10	3.79	7.71	7.75
9.3	16.6	18.7	40	45/33	18	1.50	2.28	2.56
5.4	6.9	10.3	42	46/33	21	2.61	1.97	2.46
8.2	6.7	9.3	38	43/25	59	1.58	0.64	1.71
11.2	15.0	20.9	37	39/29	18	2.73	1.99	2.29
11.1	12.4	23.8	56	76/51	12	3.17	4.80	4.36
13.7	27.3	35.9	47	66/42	15	2.15	3.04	3.26
-5.1	10.6	16.8	56	83/46	24	0.89	2.32	3.45
17.3	17.1	17.2	46	52/41	27	3.12	1.71	2.31
12.5	13.3	16.8	43	79/42	11	1.40	3.94	4.05
7.1	10.7	20.5	52	59/40	22	1.99	2.36	3.09
9.4	8.9	24.3	105	108/74	24	1.98	4.40	4.95
6.8	17.1	25.8	26	27/13	21	2.43	1.28	1.70
6.1	19.1	25.3	73	75/50	20	1.42	3.61	4.18
3.8	4.0	6.8	45	66/38	38	1.26	1.17	1.53
4.9	3.5	15.6	100	104/73	18	1.76	5.60	6.44
14.3	17.8	18.9	24	29/20	20	2.35	1.19	1.32
5.9	8.7	18.5	47	57/39	18	1.52	2.60	2.98
5.5	10.3	10.6	67	71/48	25	1.73	2.67	3.57
4.5	8.0	21.6	24	26/22	19	1.72	1.31	1.52
0.2	16.5	30.9	26	29/22	14	2.30	1.85	2.15
4.1	6.6	8.2	52	54/41	37	2.40	1.38	3.88
4.9	7.7	14.6	39	59/38	31	3.07	1.28	2.91
7.9	21.2	26.5	57	61/38	24	1.96	2.42	2.99
8.7	23.1	23.9	74	76/32	32	0.54	2.28	3.29
16.6	47.4	56.0	62	63/37	44	0.81	1.40	1.65



Swoosh!

When it comes to brand building, nobody does it better than Nike. Its ubiquitous swoosh emblem has become one of the best-known corporate symbols on the globe. But Nike doesn't think of itself just as a manufacturer; hence, the theme-park-like Nike Town stores, the team sponsorships around the world, and big deals with the likes of Michael Jordan. All that has helped the consumer-goods industry star pump out sales and earnings growth averaging close to +10% for three years straight.

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THE S&P 500

Business Week's Industry Ranking

			MARKET VALUE			SALES			PROFITABILITY	
			FEB. 21 1997 \$ MIL.	TOTAL RETURN (1 YEAR)	TOTAL RETURN (3 YEARS)	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995 %	3 YEAR AVERAGE CHANGE %	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995 %
3	28	GILLETTE	37685.6	56.7	180.2	9697.7	10	23.7	948.7	-11
4	62	PROCTER & GAMBLE	84427.9	51.3	123.9	35212.0	1	5.9	3237.0	14
5	74	PHILIP MORRIS	105294.2	38.0	156.5	54553.0	3	2.1	6303.0	15
6	87	ALBERTO-CULVER	1679.7	66.3	168.7	1668.9	20	12.7	76.5	41
7	99	CLOROX	6263.5	43.3	141.1	2353.6	13	10.6	234.8	12
8	100	ANHEUSER-BUSCH	21908.0	33.9	96.9	10883.7	5	-3.1	1156.1	30
9	123	AVON PRODUCTS	8037.0	49.6	136.0	4814.2	7	7.5	317.9	11
10	139	COLGATE-PALMOLIVE	15166.3	34.5	71.5	8749.0	5	7.3	635.0	269
11	184	ECOLAB	2487.8	25.3	85.0	1490.0	11	10.6	113.2	14
12	231	RUSSELL	1443.8	34.7	54.5	1244.2	8	9.6	81.6	51
13	250	LIZ CLAIBORNE	2968.7	29.7	106.9	2217.5	7	-0.2	155.7	23
14	261	VF	4424.5	35.5	53.8	5137.2	1	5.5	299.5	90
15	266	UST	6027.7	-2.1	28.8	1396.8x	5	8.0	464.0	8
16	271	CIRCUIT CITY STORES	3104.9	7.2	66.1	7499.5	12	25.8	150.2	-17
17	310	REEBOK INTERNATIONAL	2774.0	84.3	55.5	3478.6	0	6.3	139.0	-16
18	311	PEPSICO	53820.0	12.7	83.3	31645.0	5	8.0	1149.0	-28
19	314	BROWN-FORMAN	3027.2	12.9	65.3	1580.7	4	4.3	165.4	5
20	322	FRUIT OF THE LOOM	3132.8	57.5	48.2	2447.4	2	8.6	151.2	NM
21	330	ARMSTRONG WORLD INDUSTRIES	2859.2	18.3	36.2	2156.4	-7	-3.2	164.8	1112
22	355	MAYTAG	2125.2	4.7	37.6	3001.7	-1	-0.9	138.0	NM
23	375	AMERICAN BRANDS	8828.2	16.4	72.1	5776.3	-2	-12.4	496.8	-9
24	412	TANDY	2887.5	16.7	19.3	6285.5y	8	15.6	-91.6	NM
25	449	WHIRLPOOL	3726.5	-6.1	-20.5	8696.0y	4	4.7	156.0	-25
26	457	ADOLPH COORS	758.4	7.3	25.7	1732.2	3	2.9	43.4	1
27	479	STRIDE RITE	595.4	48.8	-17.6	448.3	-10	-8.1	2.5	NM
28	INC	SEAGRAM	14952.9	17.3	47.0	12207.0y	NA	NA	429.0	NA

7 CONTAINERS & PACKAGING

INDUSTRY AVERAGE			2974.2	11.2	25.2	4124.8	5	8.7	82.3	-64
1	156	CROWN CORK & SEAL	7323.4	23.7	53.7	8331.9	65	24.7	284.0	279
2	181	BEMIS	2127.2	26.8	92.3	1655.4	9	11.0	101.1	19
3	373	TEMPLE-INLAND	3068.8	35.7	16.8	3422.3	-1	8.7	132.8	-53
4	425	UNION CAMP	3325.3	4.6	9.2	4013.2	-5	10.2	85.3	-81
5	487	BALL	772.9	-12.8	0.1	2184.4	7	-5.5	13.1	-75
6	490	STONE CONTAINER	1227.6	-11.1	-20.6	5141.8	-30	3.0	-122.5	NM

8 DISCOUNT & FASHION RETAILING

INDUSTRY AVERAGE			9316.9	23.4	17.6	16929.6	10	9.8	472.9	8
1	55	TJX	3206.2	105.5	61.7	6689.4	68	21.7	213.8	314
2	61	GAP	8989.5	34.3	50.9	5284.4	20	17.1	452.9	28
3	98	HOME DEPOT	24490.5	10.5	28.7	19535.5	26	27.9	937.7	28
4	149	DAYTON HUDSON	8567.6	62.6	86.5	25371.0	8	9.7	474.0	52
5	194	SEARS, ROEBUCK	21282.4	28.2	143.3	38236.0	9	-7.7	1271.0	24
6	196	LOWE'S	5731.6	2.5	10.0	8600.2	22	22.9	292.2	29
7	220	AUTOZONE	3665.6	-8.9	-12.8	2348.7	25	21.9	170.3	17

INVESTMENT DATA

NET MARKET 1995	RET. ON COMMON 1995	RET. ON COMMON 1996	RECENT SHARE PRICE \$	12-MONTH HIGH/LOW \$	P/E RATIO	DIVIDEND YIELD	EARNINGS PER SHARE 1995	ESTIMATED EARNINGS PER SHARE 1997
12.1	21.5	26.5	85	86/48	49	0.85	1.71	2.61
8.1	18.9	25.5	124	130/79	27	1.45	4.58	4.86
10.3	24.2	44.3	129	136/86	17	3.72	7.68	8.96
3.9	12.4	16.8	60	62/35	22	0.66	2.70	2.47
10.1	17.6	24.1	121	127/78	27	1.92	4.55	4.75
8.6	15.8	28.5	44	46/32	19	2.19	2.28	2.44
6.4	128.1	222.0	61	64/39	25	2.08	2.38	2.72
2.1	12.7	32.1	103	109/71	25	1.82	4.19	4.82
7.4	16.4	21.8	39	40/30	22	1.66	1.75	2.00
4.7	8.9	12.3	38	39/23	18	1.38	2.11	2.35
6.1	15.1	15.1	42	46/27	19	1.08	2.15	2.42
3.1	11.7	14.8	70	71/49	15	2.18	4.64	4.96
32.4	111.0	145.9	32	36/28	13	5.00	2.42	2.67
2.7	9.6	13.3	31	39/26	21	0.45	1.52	1.71
4.7	11.1	39.5	50	53/26	25	NA	2.00	2.57
5.3	7.1	15.9	35	36/28	48	1.33	0.72	1.46
10.3	17.4	23.4	44	48/35	18	2.46	2.39	2.69
-9.5	7.8	14.2	41	43/23	21	NA	1.98	2.48
0.6	12.7	20.1	69	75/52	17	2.31	3.97	5.66
-0.5	12.2	24.0	21	23/18	16	3.03	1.36	1.80
9.2	9.4	13.5	52	54/40	18	3.86	2.86	3.55
3.6	8.2	8.8	49	59/37	-30	1.63	-1.64	3.10
2.5	4.9	8.2	50	61/44	24	2.71	2.08	3.25
2.6	4.9	6.1	20	24/17	18	2.50	1.14	1.19
-1.7	1.0	1.0	12	13/7	240	1.67	0.05	0.25
NA	3.1	4.6	40	43/31	35	1.64	1.14	1.06
5.9	3.2	4.7	40	44/31	36	2.44	1.12	1.68
1.5	3.3	7.2	57	60/41	26	1.75	2.16	3.18
5.6	12.0	17.8	41	42/28	21	1.97	1.90	2.12
8.1	3.6	6.6	55	57/40	23	2.31	2.39	2.37
10.7	2.5	4.0	48	55/45	39	3.77	1.23	1.76
2.5	0.8	1.3	25	32/23	74	2.38	0.34	1.87
6.0	-2.7	-14.6	12	17/12	-9	4.85	-1.32	-1.25
2.8	7.2	12.6	32	40/26	20	1.50	1.61	2.18
1.3	14.6	17.8	41	48/19	17	0.68	2.36	2.70
8.1	26.7	26.7	32	37/23	20	0.93	1.60	1.86
4.7	13.0	15.7	51	60/43	26	0.47	1.94	2.36
1.3	5.3	12.8	40	42/24	19	1.62	2.07	2.86
2.9	7.7	25.9	54	55/40	17	1.69	3.12	3.62
3.2	9.4	12.7	33	44/29	19	0.66	1.74	2.06
7.8	16.4	18.8	24	38/20	22	NA	1.12	1.28



Clothes Horses

Retailers have been underperformers for years. That makes standout results from Gap and T.J. Maxx, which runs the discount clothing chain, all the more impressive. A turnaround at TJX gave shareholders a 105.5% return last year. The much-larger Gap saw shareholder returns jump 34%. How? Innovation and attention to detail. A few years ago, Gap went after customers left out of its midprice chain. That led to low-end Old Navy stores and a reborn high-end Banana Republic. Both are booming.

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**JUST A REMINDER,
BLUE ISN'T THE ONLY
COLOR THAT'S BIG
IN THE COMPUTER
BUSINESS.**



The
world's largest computer
maker is you-know-who. And
now you know who number two is, too.
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of everything from tablet, notebook and desktop
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COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

THE S&P 500

Business Week's Industry Rankin

			MARKET VALUE			SALES			PROFITABILITY	
			FEB. 1 1997 \$ MIL.	TOTAL RET. 1 YEAR	TOTAL RETURN (3 YEARS)	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995 %	3 YEAR AVERAGE CHANGE %	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995 %
8	223	WAL-MART STORES	55052.5	10.7	-13.0	104859.0	12	15.7	3056.0	12
9	228	COSTCO	5014.8	42.7	35.1	20066.3y	8	8.8	231.1	6
10	252	FEDERATED DEPARTMENT STORES	7096.3	20.8	46.8	15229.0	1	32.7	265.9	257
11	278	PEP BOYS-MANNY, MOE & JACK	2005.9	10.7	21.7	1794.6	18	13.6	96.7	19
12	285	MAY DEPARTMENT STORES	11265.6	14.0	28.3	11650.0y	11	-1.2	749.0	7
13	324	LIMITED	4879.1	6.5	4.8	8644.8y	10	6.2	434.2	-55
14	399	J.C. PENNEY	10847.0	5.9	0.5	22653.0y	10	3.1	565.0	-33
15	402	DILLARD DEPARTMENT STORES	3222.7	-8.1	-18.0	6412.1y	5	6.5	238.6	43
16	420	MERCANTILE STORES	1768.5	-0.8	33.8	3030.8y	3	3.6	121.5	-1
17	421	NORDSTROM	2942.9	-10.0	1.5	4579.4y	8	7.4	147.5	-11
18	428	KMART	5449.1	60.7	-33.8	31437.0y	-1	-3.1	231.0	NM
19	435	TOYS 'R' US	6973.0	4.6	-31.4	9870.1b	9	9.5	137.5b	-70
20	454	WOOLWORTH	2730.0	69.8	-10.6	8161.0b	-2	-6.0	-38.0b	NM
21	491	CHARMING SHOPPES	474.3	28.6	-64.0	1068.3b	-5	-5.5	-116.5b	NM

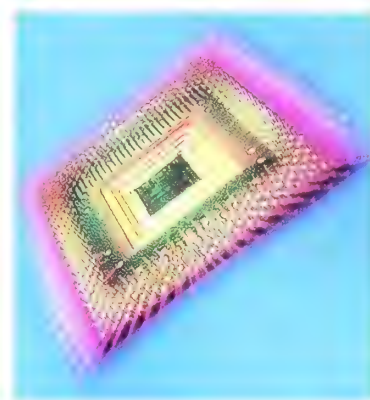
9 ELECTRICAL & ELECTRONICS

INDUSTRY AVERAGE			11681.2	26.1	92.4	5851.3	8	15.0	399.0	-19
1	1	INTEL	120115.3	147.5	329.3	20847.0	29	34.1	5157.0	45
2	18	ANDREW	3340.9	65.0	272.1	847.3	23	22.7	97.8	31
3	70	RAYCHEM	3808.4	30.0	134.5	1721.4	7	7.2	215.5	235
4	115	EMERSON ELECTRIC	22707.6	28.7	68.3	11414.7	11	12.1	1042.9	12
5	133	HONEYWELL	9281.9	41.0	142.8	7311.6	9	7.4	402.7	21
6	136	THERMO ELECTRON	5459.2	-0.1	99.8	2785.1a	33	32.2	175.5a	34
7	177	GENERAL SIGNAL	2278.4	30.2	40.3	2065.0	11	11.6	133.4	33
8	241	EATON	5580.1	32.4	34.6	6961.0	2	16.1	349.0	-13
9	248	TEKTRONIX	1633.7	12.2	103.0	1841.5	11	13.7	99.8	5
10	282	THOMAS & BETTS	1860.4	23.7	53.9	1985.1	15	26.0	59.9	-32
11	287	LSI LOGIC	4042.1	-12.2	233.8	1238.7	-2	21.8	147.2	-38
12	292	RAYTHEON	12395.6	-6.8	61.2	12260.9	5	10.7	761.2	-4
13	298	MICRON TECHNOLOGY	7194.7	-7.3	152.3	3196.1	-11	50.7	285.6	-72
14	302	COOPER INDUSTRIES	4820.4	19.3	26.2	5315.6	10	3.9	315.4	12
15	303	HARRIS	2900.9	16.3	57.6	3717.2	6	5.0	188.1	14
16	306	PERKIN-ELMER	3184.5	54.5	107.2	1211.0	9	8.3f	56.9	-24
17	347	MOTOROLA	35055.0	4.1	12.8	27973.0	3	18.5	1154.0	-35
18	349	MILLIPORE	1911.6	-1.8	96.2	618.7	4	12.4	43.6	-49
19	359	NATIONAL SERVICE INDUSTRIES	1730.0	12.9	55.3	2032.9	3	3.6	102.7	7
20	379	AMP	8618.3	-5.8	34.7	5467.7	5	16.9	286.9	-33
21	405	TEXAS INSTRUMENTS	15078.2	57.2	101.4	9940.0	-13	5.8	-46.0	NM
22	446	GENERAL INSTRUMENT	3303.0	-9.8	-9.4	2689.7	11	24.0	-1.9	NM
23	448	ADVANCED MICRO DEVICES	4910.2	74.8	59.8	1953.0	-21	6.8	-69.0	NM
24	452	WESTINGHOUSE ELECTRIC	7219.9	-10.0	20.3	8449.0	51	-2.0	-838.0	NM
25	468	NATIONAL SEMICONDUCTOR	3600.8	55.2	22.4	2440.3	-8	4.8	-146.0	NM

INVESTMENT DATA

NET MARGIN 1996	RETURN ON INVESTED CAPITAL	RETURN ON COMMON EQUITY	RECENT SHARE PRICE \$	12-MONTH HIGH/LOW \$	P/E RATIO	DIVIDEND YIELD	EARNINGS PER SHARE 1996	ESTIMATED EARNINGS PER SHARE 1997
2.9	11.0	17.7	24	28/20	18	0.88	1.33	1.53
1.2	7.3	12.6	26	28/16	22	NA	1.15	1.48
0.5	2.2	5.1	34	37/26	27	NA	1.28	2.55
5.3	7.4	12.9	33	38/28	21	0.63	1.57	1.95
6.7	9.7	19.9	46	52/41	16	2.61	2.82	3.26
12.2	15.7	20.9	18	23/16	12	2.22	1.54	1.28
4.1	6.9	12.0	48	57/46	21	4.33	2.29	3.74
2.7	4.1	6.0	28	42/28	14	0.56	2.09	2.47
4.2	7.9	9.1	48	67/46	15	2.38	3.30	3.86
3.9	8.6	10.9	36	54/34	20	1.38	1.82	2.38
-0.7	-3.2	-5.8	11	14/6	23	NA	0.48	0.68
5.1	3.0	3.9	25	38/22	51	NA	0.50	1.97
0.4	-2.0	-3.0	20	25/11	-73	NA	-0.28	1.59
-2.4	-20.9	-27.8	5	8/3	-4	NA	-1.13	0.22

9.1	9.1	14.5	55	61/35	28	1.58	2.00	2.98
22.0	31.8	33.2	146	165/52	25	0.14	5.81	8.72
10.9	18.3	20.2	55	64/29	34	NA	1.60	1.88
4.0	20.4	23.9	86	89/59	18	0.66	4.65	5.08
9.1	16.6	19.0	102	105/78	22	2.13	4.66	5.05
5.0	14.6	19.3	73	77/48	23	1.47	3.18	3.67
6.2	4.6	10.3	37	44/30	29	NA	1.28	1.58
5.4	14.1	17.9	46	47/34	17	2.23	2.68	2.98
5.8	10.7	16.4	72	75/53	16	2.21	4.50	5.22
5.7	11.5	13.9	50	52/30	16	1.21	3.03	3.97
5.1	3.1	5.9	46	48/33	41	2.44	1.13	2.76
18.8	9.2	11.2	32	40/17	28	NA	1.12	1.47
6.8	12.8	17.1	47	56/43	15	1.70	3.21	3.52
28.1	9.9	11.3	34	44/17	26	0.58	1.33	0.84
5.8	8.5	17.1	45	45/36	15	2.96	2.93	3.03
4.7	8.7	12.7	74	80/50	15	2.04	4.84	5.16
6.8	16.1	16.1	73	77/44	58	0.93	1.26	2.80
6.6	8.4	9.8	59	70/44	31	0.81	1.90	2.53
14.4	9.9	20.0	44	47/34	44	0.82	1.00	2.35
4.9	14.2	14.8	38	40/33	17	3.16	2.18	2.27
8.2	9.3	9.9	39	46/33	30	2.55	1.31	2.15
8.7	-0.8	-1.1	79	85/41	-331	0.86	-0.24	3.30
5.1	-0.1	-0.2	24	34/18	-2413	NA	-0.01	1.32
8.8	-2.8	-3.4	35	37/10	-68	NA	-0.51	1.00
-0.3	-13.6	-51.5	17	21/15	-9	1.17	-1.89	0.30
11.0	-8.5	-10.6	26	28/13	-25	NA	-1.05	1.64



Chip Champ

What's better than dominating a market? Dominating a market that's fast-growing and high-margin. That's the formula behind No.1 Intel, whose microprocessors reside inside PCs everywhere. Despite its near-monopoly position, Intel leaves nothing to chance. It's vigilant in guarding against incursions by rivals, and its marketing prowess is legend. Witness the Intel Inside campaign, which created a brand identity for a product that consumers never see and only vaguely understand.

FOOTNOTES TO TABLES APPEAR ON PAGE 119;
ALPHABETICAL INDEX OF COMPANIES
BEGINS ON PAGE 152

THE S&P 500

Business Week's Industry Rankin

			MARKET VALUE			SALES			PROFITABILITY	
			FEB. 21 1997 \$ MIL.	TOTAL RETURN % YEAR	TOTAL RETURN % YEAR	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995	3 YEAR AVERAGE CHANGE	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995
10 Food										
INDUSTRY AVERAGE			9502.4	17.1	62.9	11264.1	3	4.8	366.8	-6
1	107	CPC INTERNATIONAL	11645.1	17.8	76.0	9844.3	17	13.5	580.0	13
2	128	PIONEER HI-BRED INTERNATIONAL	5776.6	26.9	88.3	1719.0	11	8.2	227.0	25
3	152	SARA LEE	19050.9	21.6	93.1	19225.0	5	8.8	970.0	13
4	160	H.J. HEINZ	15281.7	21.3	108.3	9332.5 b	7	10.0	683.7 b	9
5	183	CAMPBELL SOUP	20805.2	37.5	132.7	7840.0	4	5.5	690.0	-8
6	209	GENERAL MILLS	10562.2	19.6	59.9	5567.0	8	-5.9	448.2	55
7	224	RALSTON PURINA	8593.7	32.0	131.3	6235.3	-9	-0.1	370.6	13
8	240	AMERICAN STORES	6542.0	56.7	105.2	18859.0	6	-0.2	344.7	6
9	242	SYSCO	6112.7	7.6	28.0	14091.2	11	10.0	289.9	9
10	244	KROGER	6664.2	42.9	115.8	25170.9	5	4.0	352.7	11
11	249	ALBERTSON'S	8834.8	-0.9	30.4	13479.7	9	7.0	493.6	8
12	267	HERSHEY FOODS	6968.8	18.1	81.8	3989.3	8	4.4	273.2	-3
13	284	WM. WRIGLEY JR.	7132.2	3.1	44.9	1850.6	5	9.2	230.3	3
14	336	KELLOGG	15180.0	-5.3	49.9	6676.6	-5	2.4	531.0	8
15	360	CONAGRA	13032.5	30.5	110.6	24924.3	1	3.4	218.1	-58
16	365	WINN-DIXIE STORES	4748.0	-12.1	37.1	13090.8	4	6.3	232.0	-5
17	370	GREAT ATLANTIC & PACIFIC TEA	1161.0	35.9	20.8	10072.4	-1	-1.1	75.5	102
18	372	ARCHER DANIELS MIDLAND	10322.3	5.8	27.0	13715.7	6	9.6	500.3	-38
19	380	GIANT FOOD	1945.7	0.3	39.2	3931.2	3	3.8	112.7	15
20	406	SUPERVALU	2107.9	3.3	-8.1	16509.6	0	0.9	170.8	6
21	436	QUAKER OATS	4732.6	1.4	19.4	5199.0	-13	-2.9	247.9	-66
22	461	FLEMING	647.1	-11.1	-26.1	16486.7	-6	8.3	26.7	-36
23	INC	UNILEVER NV	30707.9	41.3	81.1	NA	NA	NA	NA	NA

11 FUEL

INDUSTRY AVERAGE			18937.7	27.8	63.0	19181.4	14	7.1	1151.2	59
1	23	PHILLIPS PETROLEUM	11484.9	29.4	62.7	15731.0	18	8.6	1303.0	178
2	57	ROYAL DUTCH PETROLEUM	95220.1	32.4	87.3	76988.0	17	11.0	5667.0	29
3	60	AMOCO	43325.1	27.7	85.5	32150.0	19	7.8	2834.0	52
4	65	TEXACO	27041.0	30.3	75.3	45500.0 y	24	11.2	2018.0	177
5	75	SCHLUMBERGER	25521.6	40.4	91.7	8956.1	18	10.5	851.5	31
6	84	CHEVRON	43630.7	22.8	69.1	37580.0	20	5.2	2607.0	180
7	91	ATLANTIC RICHFIELD	20645.1	18.1	46.2	18592.0	18	2.9	1663.0	21
8	104	COASTAL	5109.1	27.3	63.1	11894.6	14	5.2	500.2	85
9	119	HALLIBURTON	7683.9	22.7	135.1	7385.1 y	26	5.7	300.4	21
10	124	EXXON	128826.4	31.4	76.7	119660.0 y	9	7.3	7510.0	16
11	142	HELMERICH & PAYNE	1093.3	29.3	66.1	423.1	32	10.2	56.1	348
12	147	UNOCAL	10079.2	32.8	49.0	5328.0 y	21	-12.9	456.0	83
13	153	BAKER HUGHES	5208.2	37.8	93.8	3141.7	15	6.3	194.3	52
14	157	MOBIL	51018.3	17.7	80.7	80781.9 y	7	14.0	2964.0	25
15	163	USX-MARATHON GROUP	7690.5	46.5	73.6	16332.0 x	18	13.2	671.0	NM
16	168	SANTA FE ENERGY RESOURCES	1247.1	48.6	52.8	583.3	32	10.4	41.9	58

INVESTMENT DATA

NET MARGIN 1995	RETURN ON INVESTED CAPITAL	RETURN ON COMMON EQUITY	RECENT SHARE PRICE \$	12-MONTH HIGH/LOW \$	P-E RATIO	DIVIDEND YIELD	EARNINGS PER SHARE 1996	ESTIMATED EARNINGS PER SHARE 1997
3.6	14.7	19.6	55	58/41	26	1.92	2.13	2.87
6.1	15.8	28.3	81	84/65	21	2.03	3.93	4.32
11.7	23.1	23.8	70	74/50	26	1.31	2.72	3.03
4.7	13.1	19.7	39	41/30	20	2.13	1.94	2.03
7.2	11.7	24.0	42	42/30	23	2.80	1.82	2.13
9.9	25.7	41.9	89	91/56	32	1.73	2.82	3.64
5.6	34.0	186.3	68	69/52	24	2.95	2.84	3.41
4.8	14.5	34.1	84	85/56	24	1.42	3.51	4.08
1.8	6.9	13.8	45	46/25	19	1.43	2.36	2.73
2.1	13.5	19.7	35	36/28	21	1.74	1.61	1.73
1.3	14.7	NM	53	54/35	20	NA	2.68	3.26
3.7	15.6	22.8	35	44/34	18	1.71	1.96	2.15
7.6	15.0	23.5	45	52/35	26	1.76	1.77	2.24
12.6	25.7	25.7	62	63/48	31	1.11	1.99	2.34
7.0	33.5	39.1	72	81/62	29	2.34	2.50	3.36
2.1	4.2	9.2	54	55/38	57	2.01	0.95	3.01
1.9	16.8	17.6	32	38/30	21	3.04	1.54	1.56
0.4	4.4	8.7	30	37/22	15	0.66	1.98	2.42
6.2	6.1	8.0	19	23/16	21	1.05	0.92	1.38
2.6	10.8	13.0	33	36/31	17	2.34	1.89	2.04
1.0	6.3	13.4	32	33/27	12	3.18	2.53	2.82
12.2	10.8	19.4	35	40/30	19	3.27	1.80	1.54
0.2	0.8	1.9	17	21/12	24	0.47	0.71	1.10
NA	NA	NA	192	198/130	21	1.72	NA	9.58
4.3	9.6	16.6	62	69/47	17	2.27	3.52	3.51
3.5	18.3	30.7	44	47/32	9	2.93	4.96	3.35
6.7	13.0	15.0	178	185/135	17	3.26	10.62	9.88
6.9	14.1	17.9	87	90/65	15	3.21	5.69	5.20
2.0	12.3	18.9	102	110/78	14	3.33	7.52	6.26
8.5	13.6	15.1	104	116/69	30	1.45	3.47	4.31
3.0	13.4	16.8	67	70/52	17	3.23	3.99	4.00
8.7	12.1	22.3	128	143/108	13	4.28	10.18	9.62
2.6	7.3	17.0	48	52/36	11	0.83	4.54	3.41
4.2	14.8	16.3	67	74/50	28	1.50	2.38	3.06
5.9	15.2	17.4	104	107/78	17	3.05	6.02	5.63
3.9	8.3	8.3	44	56/32	19	1.19	2.27	2.41
5.7	9.0	18.5	40	46/29	23	1.99	1.76	2.38
4.7	7.9	11.3	36	41/24	27	1.28	1.35	1.61
3.2	12.2	15.5	130	133/108	18	3.27	7.38	7.94
-0.6	10.7	20.8	27	29/18	11	2.84	2.33	1.78
6.0	-0.6	-1.0	14	16/9	-229	NA	-0.06	0.68



The Crude Edge

Performance in the fuel industry ranges from Phillips Petroleum, at No. 23, to Sun, at No. 423. What's the difference? Phillips, which drills, refines, and then sells the finished products, got a boost from a 25% jump in crude prices last year. Meanwhile, Sun, which owns the Sunoco brand, is largely a refiner, where margins are thin. Scattered operations make it tough to leverage its size or achieve market share. To succeed in this business requires control, focus, and enough diversity to withstand bad times.

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THE S&P 500

Business Week's Industry Rankin

			MARKET VALUE			SALES			PROFITABILITY	
			FEB. 21 1997 \$ MIL	TOTAL RETURN (1 YEAR)	TOTAL RETURN (3 YEARS)	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %	3 YEAR AVERAGE CHANGE %	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995 %
17	185	OCCIDENTAL PETROLEUM	8469.4	11.7	62.2	10557.0	1	9.5	698.0	37
18	188	ROWAN	1902.7	89.4	201.7	571.2	21	16.4	61.3	NM
19	230	LOUISIANA LAND & EXPLORATION	1636.1	12.5	27.2	860.5	5	3.9	80.2	327
20	236	AMERADA HESS	5204.1	6.6	20.3	8929.7y	19	14.9	660.1	NM
21	293	KERR-McGEE	3102.9	5.5	53.6	1931.1	10	-14.0	220.1	NM
22	297	UNION PACIFIC RESOURCES GROUP	6230.9	-6.3	NA	1831.0	24	17.2f	320.8	-9
23	313	ASHLAND	2803.1	15.1	14.0	12561.0	9	10.2	160.0	111
24	329	WESTERN ATLAS	3308.9	12.8	NA	2582.8	16	8.2	125.7	26
25	332	BURLINGTON RESOURCES	5668.2	18.2	3.6	1293.0	48	-0.8	255.0	NM
26	395	PENNZOIL	2813.4	56.2	26.4	2486.8y	0	-1.2	133.9	NM
27	401	ORYX ENERGY	2266.1	64.8	17.7	1147.0y	2	2.3	163.0	3
28	423	SUN	2025.5	-2.4	1.8	11300.0z	14	16.9	-281.0	NM

12 HEALTH CARE

INDUSTRY AVERAGE			19828.1	22.1	119.6	6319.9	14	16.3	738.4	21
1	6	MERCK	114564.9	45.6	216.1	19828.7	19	22.3	3881.3	16
2	10	PFIZER	61078.5	45.1	250.7	11306.0	13	15.8	1929.0	24
3	14	BRISTOL-MYERS SQUIBB	65103.2	55.8	162.3	15065.0	9	10.2	2850.0	57
4	15	JOHNSON & JOHNSON	80292.9	28.9	209.5	21620.0	15	15.7	2887.0	20
5	27	ELI LILLY	51179.9	52.8	271.7	7346.6	9	5.7	1523.5	17
6	31	MEDTRONIC	15835.4	15.5	239.7	2393.9	14	21.7	509.9	29
7	33	HEALTHSOUTH	6555.7	19.6	188.4	2436.5	22	72.2	220.8	139
8	37	SCHERING-PLOUGH	28455.5	40.2	180.6	5655.8	11	9.5	1212.8	15
9	39	BOSTON SCIENTIFIC	11875.8	47.9	323.8	1462.0	29	53.6	167.1	2495
10	45	AMERICAN HOME PRODUCTS	41727.0	34.8	144.9	14088.3	5	22.0	1883.4	12
11	48	ABBOTT LABORATORIES	44718.1	43.1	116.5	11013.5	10	9.4	1882.0	11
12	49	AMGEN	16609.9	4.4	207.0	2239.8	15	17.7	679.8	26
13	50	COLUMBIA/HCA HEALTHCARE	29128.4	19.6	53.4	19909.0	13	24.4	1505.0	41
14	56	WARNER-LAMBERT	22884.4	68.0	186.6	7231.4	3	7.9	786.5	6
15	117	WALGREEN	10399.5	22.7	115.9	12139.6	14	12.6	383.1	16
16	158	U.S. SURGICAL	2768.8	65.5	138.8	1112.7	9	3.2	109.1	38
17	165	ALZA	2515.7	-10.2	33.0	411.1y	26	23.4	92.4	28
18	176	BAXTER INTERNATIONAL	13156.4	24.1	138.8	5438.0	8	-18.8	575.0	55
19	193	RITE AID	3472.6	31.3	136.6	5744.0	7	13.3	162.3	5
20	210	BECTON, DICKINSON	6147.9	20.9	168.4	2785.6	1	4.4	297.0	13
21	215	TENET HEALTHCARE	6111.7	32.4	82.9	5818.9	25	27.0	246.1	-36
22	216	UNITED HEALTHCARE	9449.3	-20.2	25.2	10073.8y	78	48.1	355.6	24
23	239	BIOMET	1659.1	-22.2	32.6	556.1	9	17.5	100.9	17
24	255	MALLINCKRODT	3106.5	6.6	15.5	2302.4	7	7.8	198.2	21
25	300	PHARMACIA & UPJOHN	19075.7	-10.8	113.8	7286.0	3	23.5	562.0	-24
26	312	ST. JUDE MEDICAL	3188.4	-1.9	122.0	808.8	6	52.8	92.2	-34
27	318	CVS	4749.2	65.7	46.5	5528.1	14	-24.0	239.6	NM
28	342	LONGS DRUG STORES	1054.9	23.4	53.2	2828.3	7	4.1	58.6	27
29	344	GUIDANT	4780.5	38.3	NA	1048.5	13	9.5	65.8	-35

INVESTMENT DATA								
NET MARGIN 1995	RETURN ON INVESTED CAPITAL	RETURN ON COMMON EQUITY	RECENT SHARE PRICE \$	12 MONTH HIGH/LOW \$	P/E RATIO	DIVIDEND YIELD	EARNINGS PER SHARE 1996	ESTIMATED EARNINGS PER SHARE 1997
4.9	6.3	11.9	26	27/21	14	3.88	1.86	1.81
-3.9	8.0	12.4	22	29/10	32	NA	0.70	1.50
2.3	8.5	18.1	48	64/39	20	0.50	2.35	1.93
-5.2	13.5	20.6	56	62/48	8	1.07	7.09	2.12
-1.4	11.1	16.3	64	75/56	14	2.55	4.44	4.26
23.7	14.7	21.2	25	32/24	20	0.80	1.28	1.46
0.7	3.6	7.6	43	49/35	20	2.55	2.16	2.85
4.5	6.3	8.4	62	75/53	27	NA	2.31	2.80
32.1	7.1	11.4	45	55/35	22	1.21	2.02	2.33
12.3	4.2	13.8	60	64/37	21	1.66	2.88	2.88
14.0	16.4	NM	22	27/13	14	NA	1.55	1.47
-0.1	-12.7	-22.7	28	33/22	-6	3.60	-4.43	1.41
11.0	15.7	24.8	50	54/34	27	1.48	1.91	2.41
20.0	25.8	34.1	95	100/57	30	1.68	3.20	3.77
15.5	26.9	29.4	95	100/62	32	1.44	2.99	3.49
13.2	40.9	44.9	65	69/39	23	1.52	2.84	3.16
12.8	23.3	27.0	60	63/43	28	1.26	2.17	2.48
19.3	17.7	25.2	93	95/54	33	1.55	2.78	3.17
18.9	25.0	25.2	66	72/47	31	0.58	2.14	2.69
4.6	6.6	13.7	42	44/29	31	NA	1.35	1.82
20.6	53.1	54.1	78	81/53	24	1.70	3.30	3.76
0.6	18.2	18.2	67	72/38	73	NA	0.92	2.12
12.6	13.8	28.9	65	68/49	22	2.51	2.96	3.37
16.9	34.9	39.9	58	60/39	24	1.88	2.41	2.71
27.7	34.3	35.7	63	67/51	26	NA	2.42	2.80
6.0	9.5	18.3	43	45/32	20	0.18	2.22	2.56
10.5	24.1	31.5	84	90/46	29	1.80	2.90	3.12
3.1	18.4	18.4	42	44/30	27	1.14	1.54	1.71
7.7	7.5	8.5	44	47/25	30	0.37	1.48	1.70
22.2	6.4	16.3	30	35/24	28	NA	1.08	1.25
7.3	13.5	22.3	48	50/40	23	2.35	2.11	2.36
2.9	6.0	14.0	41	43/27	21	1.93	1.94	2.44
9.5	16.4	22.2	50	52/35	22	1.04	2.23	2.42
8.2	4.0	8.6	28	29/18	25	NA	1.13	1.73
5.0	7.8	7.8	51	69/32	29	0.06	1.76	2.39
16.9	18.2	18.2	15	20/13	16	NA	0.88	1.08
7.6	10.7	15.4	42	46/35	16	1.57	2.62	2.81
10.4	7.8	8.8	38	45/34	35	2.88	1.07	2.26
18.2	9.1	11.0	39	44/30	35	NA	1.12	1.89
-0.1	11.6	14.4	45	47/28	21	0.98	2.12	1.93
1.7	10.5	10.6	27	28/19	18	2.07	1.49	1.62
10.9	15.9	15.9	66	69/41	73	0.15	0.91	2.52



Good Health

Thanks to heavy research spending and a commitment to innovative new products, the health-care industry boasts many of the fittest companies in the S&P 500. An unprecedented eight drugs introduced in 1994 and '95 helped push giant Merck to the top of the sector, while little-known Medtronic has churned out red-hot growth by developing state-of-the-art heart pacemakers. And all benefited from strong stock runups as fears of government-inspired health-care reform subsided.

FOOTNOTES TO TABLES APPEAR ON PAGE 119;
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THE S&P 500

Business Week's Industry Ranking

			MARKET VALUE			SALES			PROFITABILITY	
			FEB. 21 1997 \$ MIL.	TOTAL RETURN (1 YEAR)	TOTAL RETURN (3 YEARS)	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995 %	3 YEAR AVERAGE CHANGE %	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995 %
30	350	MANOR CARE	1695.9	9.6	61.0	1362.5	24	7.4	71.6	-9
31	387	C.R. BARD	1610.1	-18.9	3.6	1194.4	5	7.1	92.5	7
32	391	ALLERGAN	2246.0	-6.8	46.6	1147.0	7	10.4	77.1	6
33	410	HUMANA	3252.3	-21.2	0.0	6788.0y	44	28.6	12.0	-94
34	439	BEVERLY ENTERPRISES	1464.2	26.9	0.9	3267.2	1	4.7	52.0	NM
35	474	BAUSCH & LOMB	2067.7	-2.7	-20.7	1926.8	0	1.3	83.1	-26

13 HOUSING & REAL ESTATE

INDUSTRY AVERAGE			3316.0	17.0	16.9	3642.3	12	7.9	145.2	-27
1	143	SHERWIN-WILLIAMS	4956.6	35.2	74.7	4132.9	26	11.3	229.2	14
2	164	PPG INDUSTRIES	10145.5	25.0	55.6	7218.1	2	8.2	744.0	-3
3	273	MASCO	5705.2	24.5	5.1	3237.0	11	-9.3	295.2	48
4	276	CENTEX	1201.8	48.0	7.9	3658.2y	19	6.9	93.3	101
5	331	PULTE	802.6	16.5	-0.8	2373.2y	17	16.6	63.2	29
6	352	FLEETWOOD ENTERPRISES	933.5	-0.7	22.3	2900.0	6	8.1	81.6	15
7	462	KAUFMAN & BROAD HOME	524.8	-13.8	-34.7	1787.0	28	12.1	-61.2	NM
8	469	OWENS CORNING	2257.6	1.5	4.8	3832.0	6	9.0	-284.0	NM

14 LEISURE TIME INDUSTRIES

INDUSTRY AVERAGE			10544.6	1.8	43.3	6265.2	17	15.1	396.6	9
1	96	WALT DISNEY	50878.1	19.1	67.6	21180.0	67	32.2	1467.0	5
2	121	MARRIOTT INTERNATIONAL	7024.8	13.8	86.5	10172.0	14	10.6	306.0	24
3	150	EASTMAN KODAK	30011.6	25.1	133.2	15968.0	7	8.3	1011.0	-19
4	166	McDONALD'S	31832.6	-11.1	53.1	10686.5	9	13.5	1572.6	10
5	171	BRUNSWICK	2802.9	21.4	51.5	3160.3	9	12.2	185.8	39
6	197	MATTEL	7162.9	-4.2	59.0	3786.0	4	12.0	377.6	6
7	213	WENDY'S INTERNATIONAL	2506.6	20.1	31.5	1897.1y	9	14.0	155.9	42
8	269	KING WORLD PRODUCTIONS	1438.6	-9.1	2.7	665.6	13	12.5	141.3	6
9	295	HILTON HOTELS	5106.0	9.5	48.3	1900.1y	15	12.0	156.3	-10
10	301	ITT	6690.1	0.9	NA	6600.0	5	17.8f	249.0	20
11	316	VIACOM	12345.8	16.7	40.9	12084.2	11	78.3	170.7	13
12	326	AMERICAN GREETINGS	2284.5	16.3	14.0	2098.2	7	6.4	159.1	41
13	343	HASBRO	3650.9	21.1	24.6	3002.4	5	3.4	199.9	29
14	407	HARRAH'S ENTERTAINMENT	1903.7	-32.1	-48.5	1588.1	2	9.0	98.9	25
15	458	DARDEN RESTAURANTS	1119.4	-43.6	NA	3178.9	-1	1.8f	79.4	671
16	471	POLAROID	1954.5	-1.2	41.7	2275.2	2	0.1	15.0	NM

15 MANUFACTURING

INDUSTRY AVERAGE			5314.9	16.2	54.2	4551.6	9	12.2	297.2	18
1	30	ILLINOIS TOOL WORKS	10636.0	39.1	103.2	4996.7	20	16.9	486.3	25
2	43	TYCO INTERNATIONAL	8909.9	52.3	122.0	5721.8	18	17.1	348.1	27
3	77	APPLIED MATERIALS	9124.4	25.8	101.5	3940.0	10	52.7	457.5	-18
4	80	DOVER	5695.5	6.4	71.2	4076.3	9	18.3	390.2	40
5	89	NEWELL	5855.9	40.5	91.7	2872.8	15	20.4	256.5	15
6	106	CATERPILLAR	15245.4	18.2	52.1	16522.0	3	12.4	1361.0	20

INVESTMENT DATA

NET ARG IN 1995	RET. ON INVESTED CAPITAL	RETURN ON COMMON EQUITY	RECENT SHARE PRICE \$	12 MONTH HIGH/LOW \$	P/E RATIO	DIV. YIELD	EARNINGS PER SHARE 1996	ESTIMATED EARNINGS PER SHARE 1997
7.1	6.3	11.9	27	44/24	24	0.33	1.14	1.75
7.6	9.8	15.4	28	37/26	17	2.41	1.62	1.97
6.8	8.4	10.3	34	42/30	29	1.51	1.17	2.12
4.0	0.8	0.9	20	29/15	286	NA	0.07	1.12
0.3	2.7	6.0	15	15/9	28	NA	0.52	0.87
5.8	5.1	9.4	37	45/33	25	2.79	1.47	2.23
6.1	2.4	15.3	39	42/29	34	1.55	1.14	3.12
6.1	15.2	16.8	58	58/41	22	1.39	2.65	3.01
0.9	21.9	30.0	55	62/44	14	2.38	3.96	4.36
6.8	10.3	16.6	36	37/27	19	2.25	1.84	2.17
1.5	8.1	11.6	42	42/25	13	0.48	3.18	3.48
2.4	5.0	7.6	35	35/24	14	0.70	2.52	2.69
2.6	17.2	19.5	26	37/23	13	2.44	1.99	2.54
2.1	-6.7	-19.4	14	17/11	-9	2.22	-1.54	1.46
6.4	-51.7	NM	43	50/36	-8	0.58	-5.50	5.22
6.8	9.5	10.7	40	46/31	24	1.22	1.69	2.27
1.0	6.1	9.1	75	79/53	35	0.70	2.13	2.70
2.8	11.9	23.9	55	60/42	24	0.58	2.24	2.65
8.4	18.7	20.9	90	95/67	30	1.95	3.00	5.11
4.6	11.7	18.1	46	54/41	21	0.66	2.21	2.51
4.6	10.5	15.5	29	29/17	15	1.75	1.88	2.14
9.8	20.7	26.1	27	33/22	19	0.91	1.36	1.67
6.3	10.7	12.8	22	23/17	19	1.08	1.20	1.41
2.6	18.2	18.2	39	45/34	10	NA	3.73	3.81
0.5	6.3	11.2	26	32/18	33	1.23	0.79	1.36
3.3	3.5	8.2	58	68/41	27	NA	2.11	2.21
1.4	0.4	0.7	35	44/30	116	NA	0.30	0.62
5.8	10.1	12.1	31	31/24	14	2.23	2.12	2.44
5.4	11.1	12.1	42	44/32	19	0.94	2.27	2.69
5.1	6.3	13.2	19	39/16	19	NA	0.95	1.30
0.3	5.2	6.5	7	14/7	14	1.14	0.50	0.62
6.3	1.3	2.3	43	48/39	134	1.40	0.32	3.07
6.0	13.3	20.5	46	51/35	16	1.80	2.87	3.21
9.3	15.1	20.3	86	88/60	22	0.89	3.93	4.43
5.6	11.2	15.6	57	60/35	25	0.35	2.26	2.51
5.6	17.2	18.8	51	55/22	20	NA	2.49	2.06
7.4	23.3	27.6	51	55/41	15	1.34	3.45	3.26
8.9	11.6	18.1	37	39/25	23	1.74	1.62	1.85
7.1	16.0	34.2	80	83/62	11	2.01	7.07	7.16



Dean of Lean

Small is certainly beautiful for Illinois Tool Works. The \$5 billion company has become a highly profitable supplier of choice for almost every industry—making thousands of components and products from adhesives and auto-door handles to spray guns and paper-packaging gear. Extreme decentralization, combined with a global push, lies at the heart of its success. By splitting into 365 operating units in 34 countries—with just 100 staffers back at headquarters—its local units react far faster to customer needs.

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THE S&P 500

Business Week's Industry Ranking

			MARKET VALUE			SALES			PROFITABILITY	
			FEB. 21 1997 \$ MIL.	TOTAL RETURN (1 YEAR)	TOTAL RETURN (3 YEARS)	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995 %	3 YEAR AVERAGE CHANGE %	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995 %
7	108	INGERSOLL-RAND	5349.6	20.3	35.0	6702.8	17	19.4	358.0	32
8	114	DEERE	10933.8	11.5	66.6	11307.9y	7	12.0	827.8	13
9	131	HARNISCHFEGER INDUSTRIES	2034.8	10.0	73.6	2952.2	24	38.8	121.9	9
10	132	AVERY DENNISON	4105.2	47.2	181.0	3222.5	3	7.5	175.9	22
11	138	JOHNSON CONTROLS	3542.6	20.1	53.3	10584.4	25	19.1	242.6	21
12	145	PARKER HANNIFIN	3283.3	24.4	91.1	3851.9	12	16.2	237.6	-1
13	148	MINNESOTA MINING & MFG.	35535.3	39.7	80.0	14236.0	6	-0.7	1516.0	16
14	200	SNAP-ON	2443.5	37.7	48.8	1485.3y	15	9.3	131.5	16
15	203	TIMKEN	1676.2	18.4	59.3	2394.8	7	12.3	138.9	24
16	212	FMC	2600.4	-5.2	40.4	4969.4	12	9.9	218.1	0
17	245	DRESSER INDUSTRIES	5466.1	14.2	51.4	6803.1y	17	8.3	263.0	19
18	247	TRINOVA	1039.7	25.7	4.4	2032.9	8	7.1	102.7	8
19	258	CORNING	8728.6	33.3	55.7	3684.5y	12	-6.3	342.9	NM
20	280	CASE	3786.0	0.2	NA	5176.0	5	11.8	349.0	1
21	308	STANLEY WORKS	3355.7	40.2	88.5	2670.8	2	5.4	96.9	64
22	368	NACCO INDUSTRIES	489.7	-3.8	-0.4	2273.2	3	14.1	50.6	-23
23	378	CINCINNATI MILACRON	901.5	-16.4	4.6	1729.7	5	20.7	66.3	-37
24	384	SPRINGS INDUSTRIES	904.1	5.0	26.7	2243.3	0	3.9	88.4	23
25	398	BLACK & DECKER	2876.3	-0.9	68.1	4914.4	3	-0.8	159.2	-26
26	403	RUBBERMAID	3613.0	-13.9	-18.8	2355.0	0	6.5	152.4	155
27	430	BRIGGS & STRATTON	1327.0	7.5	28.1	1229.6	-3	0.3	83.2	4
28	438	JOSTENS	802.2	-6.0	31.3	708.7	5	-5.7	36.3	-33
29	476	McDERMOTT INTERNATIONAL	1171.9	11.8	3.0	3307.8	2	3.4	-7.5	NM
30	483	GIDDINGS & LEWIS	467.9	-12.4	-42.3	763.0	4	14.2	-12.5	NM
31	INC	TUPPERWARE	2860.2	11.1 c	NA	1369.3	1	NA	174.7	2

16 METALS & MINING

INDUSTRY AVERAGE			3990.7	-5.6	4.4	3326.9	-3	11.5	120.5	-47
1	189	ALUMINUM CO. OF AMERICA	12333.3	32.4	95.4	13061.0	4	14.2	514.9	-35
2	235	PHELPS DODGE	4618.0	23.3	41.5	3786.6	-10	14.7	461.8	-38
3	275	FREEPORT-McMORAN COPPER & GOLD	6449.7	10.4	NA	1905.0	4	29.4	226.2	-11
4	327	NUCOR	4188.5	-13.2	-16.1	3647.0	5	17.3	248.2	-10
5	338	ALCAN ALUMINUM	8089.7	19.9	65.4	7614.0	-18	2.8	410.0	-24
6	348	INCO	5943.4	13.6	45.4	3105.0	-7	15.3	166.0	-25
7	371	ASARCO	1294.6	4.6	27.3	2696.7	-16	19.4	138.3	-18
8	386	USX-U.S. STEEL GROUP	2691.6	-3.8	-16.6	6547.0	1	5.4	275.0	-9
9	394	BARRICK GOLD	10054.8	-12.2	13.4	1298.4	1	26.0	217.9	-25
10	397	WORTHINGTON INDUSTRIES	1897.5	0.0	11.3	1629.4	12	10.3	83.8	-24
11	408	NEWMONT MINING	4515.7	-18.2	12.5	768.5	21	6.9	85.1	-24
12	416	REYNOLDS METALS	4644.9	30.1	37.4	6972.0	-3	11.0	104.0	-73
13	465	CYPRUS AMAX MINERALS	2166.9	-4.7	-12.9	2843.0	-11	17.0	77.0	-38
14	466	SANTA FE PACIFIC GOLD	2251.4	8.2	NA	343.2	-2	11.4	21.1	-47
15	472	ARMCO	453.1	-26.1	-26.1	1724.0	11	1.9	26.0	11

INVESTMENT DATA

NET MARKET VALUE 1995	RETURN ON INVESTED CAPITAL	RETURN ON COMMON EQUITY	RECENT SHARE PRICE \$	12-MONTH HIGH/LOW \$	P-E RATIO	DIVIDEND YIELD	EARNINGS PER SHARE 1996	ESTIMATED EARNINGS PER SHARE 1997
4.7	10.9	17.9	49	49/37	15	1.68	3.33	3.52
7.0	13.8	23.3	43	47/35	13	1.88	3.20	3.50
4.7	8.3	17.0	43	50/30	17	0.94	2.57	3.83
4.6	14.6	21.1	40	41/25	24	1.72	1.68	1.92
2.4	10.3	15.0	85	91/63	15	2.02	5.58	6.21
7.0	12.6	16.3	44	45/33	14	1.81	3.19	3.36
9.7	21.2	24.1	85	91/61	23	2.49	3.63	4.11
8.8	13.4	15.9	40	41/27	19	1.99	2.16	2.45
5.0	12.8	15.1	54	55/37	12	2.46	4.43	4.77
4.9	10.8	26.4	70	78/61	12	NA	5.73	6.21
3.8	10.5	16.6	31	36/25	21	2.19	1.48	1.73
5.0	14.6	23.0	37	40/28	11	2.15	3.51	3.53
2.2	11.9	34.7	38	46/31	25	1.90	1.50	1.78
7.0	11.0	17.3	52	59/42	11	0.39	4.61	5.03
2.3	8.6	12.4	38	39/24	35	1.96	1.09	2.09
3.0	5.4	14.8	55	64/43	10	1.38	5.67	4.50
6.4	8.8	14.8	23	29/18	13	1.59	1.73	1.95
3.2	9.2	11.3	45	51/39	10	2.94	4.32	4.05
4.5	4.9	9.2	33	44/29	20	1.47	1.64	2.46
2.6	13.0	15.0	24	30/21	24	2.49	1.01	1.26
6.4	15.0	16.8	46	47/37	16	2.35	2.88	3.58
8.1	31.2	32.3	21	24/17	22	4.24	0.95	1.50
0.2	-0.9	-2.4	21	23/16	-74	0.94	-0.29	0.78
0.9	-2.1	-2.7	14	20/11	-38	0.85	-0.37	0.96
2.6	49.2	69.1	46	56/38	17	1.91	2.76	3.05
6.7	2.1	6.1	30	36/24	27	1.57	1.11	1.80
6.3	7.0	11.8	71	73/54	24	1.27	2.94	5.41
7.8	13.6	16.8	71	78/55	10	2.80	6.97	6.32
3.8	6.4	15.3	33	36/28	38	2.70	0.89	1.06
7.9	13.0	16.2	48	63/45	17	0.67	2.83	3.29
5.8	6.4	8.1	36	37/29	21	1.68	1.74	2.79
6.7	2.5	3.2	36	37/29	33	1.12	1.09	1.67
5.3	3.4	6.0	30	36/23	9	2.65	3.24	1.98
4.7	9.7	17.3	32	38/24	11	3.15	3.00	3.85
2.8	5.6	6.3	27	33/25	45	0.52	0.60	0.79
7.6	8.4	12.4	21	23/18	23	2.30	0.92	1.25
7.7	5.0	8.3	45	61/38	53	1.06	0.86	1.22
5.4	1.5	2.6	64	65/49	60	2.19	1.06	3.70
3.9	1.1	2.5	23	29/20	38	3.44	0.62	1.58
1.4	2.2	3.7	17	18/11	107	0.29	0.16	0.21
1.5	6.1	NM	4	6/4	53	NA	0.08	0.39



Aluminum Roll

With pressure on gold, aluminum, and steel prices, the mining and metals industries have taken a beating. Still, aluminum maker Alcoa has done better than most. To be sure, weak results in 1992 and 1993 make for an easier comparison. That's why Alcoa could rack up average annual profit gains of 331% over the past three years. Alcoa turned low aluminum prices into improved profit margins, which gave it a leg up on competitors. Total return for three years hit 95%, by far the sector's best performance.

FOOTNOTES TO TABLES APPEAR ON PAGE 119;
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BEGINS ON PAGE 152

THE S&P 500

Business Week's Industry Ranking

			MARKET VALUE			SALES			PROFITABILITY	
			FEB. 01 1997 \$ MIL.	TOTAL RETURN (1 YEAR)	TOTAL RETURN 3 YEARS	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995	1 YEAR AVERAGE CHANGE	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995
16	477	PLACER DOME	5298.6	-19.7	-1.9	1157.0	12	8.7	-65.0	NM
17	478	BATTLE MOUNTAIN GOLD	1635.8	-33.3	-33.4	424.0	6	33.8	-74.3	NM
18	480	HOMESTAKE MINING	2365.1	-14.7	-18.3	742.9y	4	2.5	30.3	0
19	482	INLAND STEEL INDUSTRIES	978.2	-22.6	-39.7	4584.1	-4	5.7	69.0	-53
20	492	BETHLEHEM STEEL	879.3	-46.6	-65.2	4679.0	-4	2.5	-308.8	NM
21	495	ECHO BAY MINES	1054.0	-46.0	-36.1	337.3	-6	-2.9	-176.7	NM

17 NONBANK FINANCIAL

INDUSTRY AVERAGE			11707.7	40.0	109.2	8753.3	10	11.2	755.4	16
1	5	TRAVELERS GROUP	35016.1	67.9	203.2	21345.3y	21	44.4	2305.8	42
2	17	FEDERAL HOME LOAN MORTGAGE	22607.6	52.6	140.7	12032.0	27	30.9	1258.0	15
3	19	GREEN TREE FINANCIAL	5268.3	27.4	248.4	924.1	30	36.8	308.7	22
4	24	MERRILL LYNCH	16148.8	68.9	149.3	25011.0y	16	15.0	1619.0	45
5	38	DEAN WITTER, DISCOVER	13307.3	56.2	147.6	9028.6y	14	16.2	951.4	11
6	40	MGIC INVESTMENT	4522.7	34.0	159.4	749.7	20	21.6	258.0	24
7	41	FANNIE MAE	42307.4	25.0	103.1	25053.9y	13	16.4	2753.6	28
8	54	MORGAN STANLEY GROUP	10369.8	36.1	102.9	13144.0	22	14.4	1029.0	69
9	79	ALLSTATE	29055.3	56.2	172.0	24299.0	7	5.4	2075.0	9
10	81	AMERICAN EXPRESS	31802.5	46.1	170.5	16237.0y	3	7.4	1901.0	22
11	83	AMERICAN INTERNATIONAL GROUP	58679.6	30.5	113.6	25862.5y	9	11.7	2897.3	15
12	88	LOEWS	11931.3	24.1	116.1	20442.4y	9	17.9	1383.9	-22
13	113	JEFFERSON-PILOT	4076.7	6.5	99.6	2121.5a	56	18.8	306.0a	31
14	118	CIGNA	11963.2	38.3	163.1	18950.0y	0	1.2	1056.0	400
15	125	BENEFICIAL	3790.0	47.0	104.7	1959.1y	24	-2.9	281.0	87
16	127	GOLDEN WEST FINANCIAL	4114.3	38.6	75.2	2620.1y	7	12.9	369.9	58
17	129	GENERAL RE	14029.2	19.6	65.2	8192.1	15	36.6	893.1	8
18	135	HOUSEHOLD INTERNATIONAL	9674.2	56.0	206.3	5058.8	-2	5.1	538.6	19
19	140	MARSH & McLENNAN	8434.7	25.0	56.4	4149.0	10	9.5	459.3	14
20	141	CONSECO	5709.0	151.6	210.1	3035.0	6	11.5	278.9	25
21	179	AMERICAN GENERAL	8857.6	24.7	80.4	6887.0y	6	14.6	577.0	6
22	190	ST. PAUL	5862.8	23.6	85.4	5734.2	13	8.6	557.9	4
23	191	MBIA	4232.0	32.4	68.1	545.5	18	8.0	322.2	19
24	195	PROVIDIAN	5122.1	22.0	70.5	3622.6	7	8.4	434.7	26
25	222	SALOMON	6351.0	53.1	20.3	9002.0y	1	4.3	907.0	98
26	238	CHUBB	10094.7	21.2	63.5	6316.4y	4	5.7	694.7	0
27	243	USF&G	2639.2	40.5	64.5	3498.0	1	2.7	261.0	25
28	260	ADN	6929.3	24.0	110.9	3888.2	12	-1.5	350.8	16
29	263	TORCHMARK	3993.3	23.5	37.8	2186.0a	6	1.6	321.1a	19
30	299	SAFECO	5325.8	19.3	61.5	4072.0y	4	5.5	439.0	10
31	305	TRANSAMERICA	5803.1	18.5	85.3	6227.6	2	9.5	456.3	-3
32	307	GREAT WESTERN FINANCIAL	6394.0	114.3	198.0	3488.6y	0	8.0	115.8	-56
33	345	LINCOLN NATIONAL	5987.7	9.2	58.6	6721.3y	1	-5.7	513.6	7
34	362	UNUM	5591.4	34.3	55.8	4042.7	-2	6.8	238.0	-15

INVESTMENT DATA

NET MARGIN 1995	RETURN ON INVESTED CAPITAL	RETURN ON COMMON EQUITY	RECENT SHARE PRICE \$	12-MONTH HIGH/LOW \$	P-E RATIO	DIVIDEND YIELD	EARNINGS PER SHARE 1996	ESTIMATE EARNINGS PER SHARE 1997
7.2	1.3	2.0	22	31/20	-82	0.00	-0.27	0.32
7.4	-9.8	-14.2	7	12/6	-20	0.70	-0.36	0.08
4.2	2.9	3.9	16	21/13	77	1.24	0.21	0.18
3.1	3.7	7.3	20	29/16	16	1.00	1.23	1.58
3.7	-20.0	-28.0	8	16/8	-3	NA	-3.15	0.45
13.9	-26.8	-29.4	8	15/6	-6	1.06	-1.31	-0.35
8.2	7.9	14.4	71	74/47	15	1.72	4.54	5.27
9.2	9.3	17.7	55	58/28	16	1.10	3.45	3.75
11.5	0.7	17.6	32	34/19	19	1.09	1.67	1.91
35.7	21.1	24.7	38	43/28	17	0.78	2.20	2.97
5.2	5.1	23.8	98	104/54	12	1.23	8.20	7.15
10.8	6.9	19.1	41	44/24	15	1.36	2.79	3.38
33.3	19.6	20.1	79	80/52	18	0.20	4.13	5.10
9.7	1.5	21.2	40	44/28	16	2.11	2.50	2.80
5.6	4.6	14.7	68	72/41	11	1.18	6.27	5.58
8.4	14.9	16.3	66	68/37	14	1.45	4.63	4.82
9.9	11.5	22.3	67	70/39	17	1.34	3.90	4.09
10.5	7.4	13.3	125	130/88	20	0.32	6.15	6.73
9.5	9.8	16.5	104	107/73	9	0.96	11.91	10.50
17.1	11.7	13.6	58	61/49	14	2.78	4.25	4.16
1.1	13.1	15.1	159	162/101	11	2.01	13.85	13.84
9.5	2.9	16.3	71	72/47	14	2.95	5.08	5.96
9.5	2.8	15.7	72	76/49	11	0.61	6.33	5.88
11.5	9.9	12.0	172	178/139	16	1.28	11.00	11.86
8.8	2.8	17.5	100	108/62	19	1.56	5.30	6.43
10.7	21.4	26.4	118	123/88	19	3.06	6.34	7.08
7.8	5.9	12.8	43	44/16	20	0.29	2.12	2.80
8.4	4.8	10.3	44	45/33	16	3.22	2.75	3.52
10.6	11.3	14.0	71	72/50	11	2.67	6.49	5.63
58.7	5.3	13.0	98	105/70	13	1.56	7.43	8.00
10.2	11.0	14.1	55	57/38	12	2.01	4.64	5.01
5.1	4.4	15.6	58	61/35	7	1.10	7.88	5.78
11.5	10.7	12.2	58	60/41	15	1.86	3.91	4.17
6.0	10.5	13.8	23	23/14	11	0.88	2.05	1.70
8.8	8.3	9.9	64	66/48	26	2.25	2.48	3.78
13.2	12.2	17.6	57	59/40	13	2.04	4.35	4.83
10.2	10.1	11.2	42	44/31	12	2.75	3.48	3.29
7.7	3.5	12.0	87	89/67	13	2.30	6.59	7.23
7.5	1.6	3.5	46	47/21	67	2.16	0.69	2.69
7.3	9.2	11.8	57	60/41	12	3.42	4.91	4.53
6.8	8.4	10.4	78	80/55	24	1.41	3.26	4.90



Weill Built

Do what you know. Do it well. And do it cheap. That's the formula Sanford L. Weill used when he took over a troubled Travelers in 1993. Combining it with his healthy Primerica, he turned the resulting Travelers Group into the top performer in financial services. Weill has pursued his now well-known strategy of shedding laggards, cutting costs, and making acquisitions. His latest buy: Travelers' 1996 purchase of Aetna's property and casualty business, giving Travelers powerhouse status.

FOOTNOTES TO TABLES APPEAR ON PAGE 119;
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THE S&P 500

Business Week's Industry Rankin

MARKET VALUE

SALES

PROFITABILITY

			FEB. 21 1997 \$ MIL.	TOTAL RETURN (1 YEAR)	TOTAL RETURN (3 YEARS)	10 MONTHS 1996 \$ MIL.	CHANGE FROM 1995	5-YEAR AVERAGE CHANGE	10 MONTHS 1996 \$ MIL.	CHANGE FROM 1995
35	366	H.F. AHMANSON	4201.0	86.9	157.5	3719.8y	-4	6.3	145.5	-68
36	383	USLIFE	1632.2	56.2	99.2	1806.1	4	4.2	76.0	-28
37	393	AETNA	12828.3	21.5	50.0	15163.2y	16	-3.1	205.1	-57
38	437	ITT HARTFORD GROUP	8828.1	50.8	NA	12473.0	3	6.0f	-99.0	NM
39	450	H&R BLOCK	3120.7	-24.6	-25.6	1769.3y	17	15.4	34.0	-64

18 OFFICE EQUIPMENT & COMPUTERS

INDUSTRY AVERAGE			14730.8	17.7	124.7	8005.1	11	21.6	534.2	15
1	2	MICROSOFT	113810.0	90.2	378.0	9435.0	27	32.8	2476.0	35
2	3	DELL COMPUTER	12506.8	299.3	1150.5	7759.0	47	40.5	531.0	95
3	4	CISCO SYSTEMS	38311.1	23.7	215.5	5406.4	80	81.4	1041.6	53
4	8	COMPAQ COMPUTER	21596.3	60.3	149.5	18109.0	23	36.0	1313.0	66
5	11	ORACLE	26892.2	15.7	168.5	4848.0	39	42.4	704.9	48
6	13	SUN MICROSYSTEMS	12146.8	37.1	405.3	7798.7	22	20.1	567.4	27
7	16	EMC	8609.2	96.0	86.2	2273.7	18	42.4	386.2	18
8	34	3COM	6796.5	-21.4	164.1	2796.7	42	60.1	301.2	71
9	51	HEWLETT-PACKARD	56537.4	14.4	155.7	39427.0	18	22.9	2708.0	3
10	71	INTERNATIONAL BUSINESS MACHINES	71227.3	15.7	166.4	75947.0	6	7.1	5429.0	30
11	78	FIRST DATA	16856.0	2.7	74.1	4934.1	21	57.3	636.5	NM
12	92	CERIDIAN	2740.5	-12.8	76.2	1495.6	12	18.5	181.9	87
13	101	AUTOMATIC DATA PROCESSING	12339.5	2.2	67.6	3906.1y	23	18.8	484.8	15
14	155	PITNEY BOWES	9166.8	27.8	52.7	3858.6	9	8.7	469.4	15
15	162	XEROX	18459.5	34.4	84.4	17378.0	5	1.4	1206.0	3
16	186	SEAGATE TECHNOLOGY	12731.7	59.1	302.0	8568.8	2	42.1	285.5	-39
17	187	COMPUTER ASSOCIATES INTL.	16839.8	-6.1	179.0	3945.4	23	24.9	295.1	NM
18	201	COMPUTER SCIENCES	5469.1	-8.5	86.3	5241.3	17	29.5	164.3	22
19	207	SHARED MEDICAL SYSTEMS	1302.7	2.4	118.9	767.4y	18	15.5	47.0	18
20	234	CABLETRON SYSTEMS	4569.2	-20.1	21.6	1314.3	29	33.7	172.2	-13
21	363	DATA GENERAL	776.0	14.7	136.4	1343.1	11	8.0	33.9	NM
22	429	SILICON GRAPHICS	4321.7	-9.3	-1.5	3245.2	30	37.1	-30.1	NM
23	431	MOORE	2187.2	17.0	33.3	2517.7	-3	3.2	149.9	-44
24	443	AUTODESK	1559.7	-1.3	36.2	496.7y	-7	6.7	41.6	-53
25	451	BAY NETWORKS	3748.2	-58.8	-22.7	2094.5	19	48.4	-82.9	NM
26	455	JOHN H. HARLAND	871.6	29.8	37.6	609.4	9	5.7	-13.9	NM
27	459	AMDAHL	1330.9	24.8	79.6	1631.5	8	-1.6	-326.7	NM
28	464	DELUXE	2644.8	1.3	8.4	1895.7	2	6.2	65.5	-31
29	470	NOVELL	4196.0	-7.6	-50.5	1311.8	-34	-12.7	113.2	-65
30	473	TANDEM COMPUTERS	1589.5	32.1	-7.8	1929.4	2	-2.7	28.3	-35
31	475	UNISYS	1180.1	0.0	-53.8	6370.5	0	-5.1	61.8	NM
32	485	DIGITAL EQUIPMENT	5288.0	-51.8	15.9	13609.7	-6	0.4	-342.8	NM
33	489	APPLE COMPUTER	2040.1	-44.7	-54.9	8814.0	-23	3.1	-867.0	NM
34	494	INTERGRAPH	410.5	-55.3	-17.9	1095.3	0	1.8	-69.1	NM

INVESTMENT DATA								
NET MARGIN, 1996	RETURN ON INVESTED CAPITAL	RETURN ON COMMON EQUITY	RECENT SHARE PRICE \$	12-MONTH HIGH/LOW \$	P-E RATIO	DIVIDEND YIELD	EARNINGS PER SHARE 1996	EARNINGS PER SHARE 1997
1.7	0.8	3.9	41	45/22	45	2.14	0.91	2.94
6.1	5.2	6.6	48	48/27	22	2.08	2.18	3.47
3.6	1.3	1.6	85	89/55	63	0.94	1.36	5.52
4.6	-1.8	-2.2	75	81/45	-90	2.13	-0.84	6.35
6.3	5.4	6.2	30	42/24	103	2.67	0.29	1.74
6.4	9.8	17.8	41	53/27	37	NM	1.13	2.23
4.8	25.7	25.7	95	104/46	50	NA	1.92	2.29
5.1	48.1	48.9	71	76/13	26	NA	2.77	3.43
2.7	28.8	29.1	58	76/41	38	NA	1.54	2.09
5.3	20.4	21.4	80	88/36	17	NA	4.72	6.05
3.7	33.0	33.0	41	51/27	39	NA	1.05	1.67
7.0	24.6	24.6	33	35/20	23	NA	1.45	1.79
7.0	23.0	27.6	37	40/17	24	NA	1.57	1.94
9.0	21.7	23.6	39	81/34	23	NA	1.66	2.68
7.8	16.9	20.2	56	60/38	22	0.86	2.58	2.98
5.8	17.2	25.0	138	170/89	13	1.02	10.24	12.51
2.1	11.5	18.2	38	44/34	27	0.21	1.37	1.61
7.3	38.1	48.8	40	55/32	17	NA	2.39	2.86
3.3	17.4	20.5	42	46/36	25	1.09	1.67	1.82
1.5	12.5	21.0	62	63/43	20	2.59	3.12	3.47
7.1	8.0	26.6	57	61/41	16	2.25	3.49	4.07
5.5	8.1	8.1	52	56/18	43	NA	1.19	3.32
3.4	9.3	19.5	46	68/38	57	0.22	0.81	3.00
3.0	7.3	10.2	72	87/64	31	NA	2.32	3.44
6.1	15.9	16.7	55	72/42	28	1.52	1.95	2.27
9.4	17.3	17.3	30	44/27	26	NA	1.14	2.19
5.5	6.9	9.9	20	20/9	24	NA	0.81	1.10
9.3	-1.5	-1.8	25	30/18	-144	NA	-0.17	0.88
0.3	9.2	9.7	22	23/17	15	4.30	1.50	1.40
6.4	13.5	13.5	35	44/19	39	0.69	0.88	1.43
2.3	-6.7	-7.4	19	49/18	-42	NA	-0.45	0.67
8.2	-4.8	-8.0	28	33/21	-63	1.06	-0.45	1.96
1.9	-50.5	-50.5	11	14/7	-4	NA	-2.71	0.71
5.1	8.0	9.2	32	40/29	40	4.61	0.80	2.13
6.1	6.5	6.6	12	16/9	36	NA	0.34	0.82
2.3	2.4	2.6	13	15/8	58	NA	0.23	0.96
9.9	-1.7	-3.4	7	9/5	-20	NA	-0.34	0.43
3.0	-8.7	-10.5	34	77/28	-14	NA	-2.46	0.83
1.5	-30.0	-44.6	16	30/15	-2	NA	-7.01	-1.49
4.1	-13.5	-14.4	9	20/8	-6	NA	-1.46	0.22



Silicon Czars

With players like Microsoft, Dell, Compaq, and Cisco, it's no surprise that the computer industry dominates the top 10 slots in the BUSINESS WEEK 50. Super-fast growers all, each sits atop the niche it has carved out in one of the most dynamic industries on the globe. Lean manufacturing and low-cost direct sales have made Dell a dynamo in personal computer manufacturing, while Microsoft's continuing ability to reinvent itself, and its software, have made it the 800-pound gorilla rivals love to hate.

FOOTNOTES TO TABLES APPEAR ON PAGE 119.
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THE S&P 500

Business Week's Industry Ranking

MARKET VALUE

SALES

PROFITABILITY

FEB. 21
1997
\$ MIL

TOTAL
RETURN
(1 YEAR)

TOTAL
RETURN
(3 YEARS)

12
MONTHS
1996
\$ MIL

CHANGE
FROM
1995
%

3 YEAR
AVERAGE
CHANGE
%

12
MONTHS
1996
\$ MIL

CHANGE
FROM
1995

19 PAPER & FOREST PRODUCTS

INDUSTRY AVERAGE			6436.2	7.1	25.0	7439.3	-6	9.0	255.5	-44
1	63	KIMBERLY-CLARK	27877.1	31.5	93.6	13149.1	-2	28.4	1403.8	4128
2	364	INTERNATIONAL PAPER	12495.8	15.4	20.1	20100.0	2	15.4	303.0	-74
3	374	JAMES RIVER CORP. OF VIRGINIA	2589.7	14.0	78.8	5690.5	-16	8.7	157.3	24
4	390	WILLAMETTE INDUSTRIES	3394.9	13.4	13.3	3425.2	-12	11.1	192.1	-63
5	392	WESTVACO	2891.2	-2.6	31.8	3033.1	-8	9.6	185.3	-38
6	400	MEAD	2997.7	11.2	36.8	4706.5	-9	4.5	189.9	-45
7	418	CHAMPION INTERNATIONAL	4013.0	-0.1	32.7	5880.4	-16	7.4	141.3	-82
8	432	WEYERHAEUSER	9170.9	9.3	7.4	11114.0	-6	6.0	463.0	-42
9	453	POTLATCH	1247.6	4.4	1.5	1554.4	-3	4.8	61.5	-43
10	460	GEORGIA-PACIFIC	6816.1	15.4	10.0	13024.0	-9	2.8	161.0	-84
11	467	BOISE CASCADE	1538.9	-11.5	23.3	5108.2	1	10.2	9.1	-97
12	493	LOUISIANA-PACIFIC	2202.0	-15.7	-49.4	2486.0	-13	-1.0	-200.7	NM

20 PUBLISHING & BROADCASTING

INDUSTRY AVERAGE			6526.8	12.2	50.4	3923.5	18	13.9	120.9	44
1	73	McGRAW-HILL	5049.6	14.6	60.0	3074.7	5	11.3	495.7	118
2	97	GANNETT	11558.5	23.9	59.3	4421.1	18	5.8	624.0	36
3	218	KNIGHT-RIDDER	3728.4	18.5	49.8	2774.8	1	4.2	267.9	60
4	221	TRIBUNE	4912.0	20.3	49.2	2405.7	7	7.0	282.8	15
5	265	MEREDITH	1331.0	9.2	137.0	853.4	-1	3.2	58.6	25
6	268	TIMES MIRROR	5147.3	50.9	136.6	3401.0	-1	1.7	206.4	NM
7	281	NEW YORK TIMES	4232.5	57.6	68.5	2615.0	9	8.3	84.5	-38
8	358	DOW JONES	3829.1	2.6	8.1	2481.6	9	8.8	190.0	0
9	414	TIME WARNER	16165.8	-3.9	12.9	10064.0	25	14.6	-156.0	NM
10	422	TELE-COMMUNICATIONS	9047.8	-31.5	-20.2	7997.0a	48	25.0	-479.0a	NM
11	426	COMCAST	4316.3	-4.0	-6.6	4038.4	20	52.3	-52.4	NM
12	440	US WEST MEDIA GROUP	9003.5	-12.1	NA	2955.0	24	24.4 f	-71.0	NM

21 SERVICE INDUSTRIES

INDUSTRY AVERAGE			5515.2	13.6	65.6	4179.7	15	13.9	163.8	-19
1	20	HFS	8685.6	51.7	391.2	799.0y	93	46.5	169.6	113
2	44	SERVICE CORP. INTERNATIONAL	6715.8	29.2	119.0	2294.2	39	37.7	265.3	45
3	105	INTERPUBLIC GROUP	4099.1	21.2	58.8	2537.5y	16	13.4	205.2	58
4	151	ENRON	10591.3	9.7	39.5	13289.1	45	16.8	584.4	12
5	198	FLUOR	5425.5	-0.8	47.5	12046.9	25	14.1	272.6	14
6	205	CRANE	1496.6	24.3	94.1	1847.7	4	11.7	92.1	21
7	237	CUC INTERNATIONAL	9512.3	11.2	74.3	2051.4 b	20	38.1	117.2 b	4
8	254	SIGMA-ALDRICH	3148.9	16.5	18.6	1034.6	8	11.9	147.9	12
9	259	W.W. GRAINGER	4082.4	16.7	33.1	3537.2	8	10.2	208.5	12
10	264	GENUINE PARTS	5568.3	8.3	33.7	5720.5	9	9.2	330.1	7
11	277	FOSTER WHEELER	1676.4	-5.8	8.6	4005.5	32	17.6	82.2	188
12	333	LAIDLAW	4319.1	41.1	125.0	2380.1	-7	6.8	133.3	-1

INVESTMENT DATA

NET MARGIN 1995	RETURN ON INVESTED CAPITAL	RETURN ON COMMON EQUITY	RECENT SHARE PRICE \$	12-MONTH HIGH/LOW \$	P-E RATIO	DIVIDEND YIELD	EARNINGS PER SHARE 1996	ESTIMATED EARNINGS PER SHARE 1997
5.8	3.6	7.6	48	55/40	27	2.39	1.77	2.29
0.2	22.3	32.6	99	107/69	20	1.86	4.98	5.54
5.8	1.7	3.1	42	45/36	40	2.40	1.04	2.00
1.9	2.4	4.3	30	36/24	26	1.99	1.15	1.84
13.3	5.2	9.8	61	70/52	18	2.09	3.48	3.20
9.0	5.4	8.3	28	33/27	16	3.10	1.83	2.08
6.6	5.4	8.5	57	62/49	16	2.09	3.57	3.69
11.1	2.1	3.8	42	51/40	28	0.48	1.48	0.92
6.8	4.7	10.1	46	51/40	20	3.46	2.34	2.49
6.8	3.8	6.4	43	45/35	20	3.93	2.13	2.36
7.1	2.1	4.5	75	81/63	42	2.68	1.78	2.83
6.9	-0.8	-1.8	32	47/27	-50	1.89	-0.63	-0.07
-1.8	-10.6	-14.1	20	28/20	-11	2.77	-1.87	0.56
2.5	8.6	4.3	41	44/30	26	1.52	1.56	1.38
7.7	30.3	45.8	51	52/37	10	2.84	4.96	†
12.3	13.6	23.4	82	84/62	19	1.76	4.43	4.42
6.1	13.9	24.1	40	42/32	14	2.02	2.75	2.16
10.9	11.2	18.2	40	44/32	19	1.61	2.15	2.32
5.4	19.2	19.2	50	54/39	24	1.05	2.09	2.37
-9.8	8.7	10.4	52	56/31	34	0.77	1.55	2.11
5.6	3.6	5.4	44	45/26	50	1.37	0.87	2.14
8.3	9.5	11.3	40	42/32	20	2.42	1.96	1.30
-1.5	-2.5	-7.9	42	45/30	-44	0.86	-0.95	-0.65
-2.0	-2.5	-15.8	14	22/11	-17	NA	-0.78	-0.39
-1.1	-0.7	-9.5	19	21/14	-88	0.50	-0.21	-0.17
6.1	-1.1	-1.7	19	23/14	-119	NA	-0.16	-0.40
5.6	9.6	10.0	37	44/30	27	1.73	1.37	2.07
19.3	6.9	8.9	68	80/41	52	NA	1.29	2.55
11.1	6.2	12.4	29	32/21	26	1.05	1.10	1.28
6.0	18.2	25.3	51	51/41	20	1.34	2.56	2.81
5.7	7.0	15.8	42	48/35	18	2.16	2.31	2.64
2.5	16.3	16.3	65	76/58	20	1.17	3.22	3.67
4.3	12.6	19.9	33	34/24	17	1.50	2.01	2.28
6.6	9.8	10.0	24	28/18	70	NA	0.34	0.89
13.7	16.0	16.2	32	33/24	21	0.79	1.48	1.65
5.7	16.0	16.1	80	83/64	20	1.25	4.04	4.44
5.9	18.4	19.5	46	48/42	17	3.11	2.73	3.01
0.9	6.0	12.1	41	47/34	20	1.99	2.03	2.49
5.2	3.1	6.0	14	14/9	31	0.00	0.44	0.69



Brand Daddy

HES may not be a household name, but its portfolio, which includes Century 21, Coldwell Banker, Avis, Howard Johnson, and Ramada, has some of the best-known brands in their industries. This earnings powerhouse—profits averaged 68.1% over the past three years—has a simple formula: Buy aging franchised service companies, set high standards, and expand the operations, aiming them squarely at aging baby boomers, still the most powerful demographic force in the land.

FOOTNOTES TO TABLES APPEAR ON PAGE 119;
ALPHABETICAL INDEX OF COMPANIES
BEGINS ON PAGE 152



.WORK THE WEB™

TO MAKE THE WEB READY FOR BUSINESS WE HAD TO OVERCOME MANY TECHNOLOGICAL HURDLES **NOSY** PEOPLE ► FOR EXAMPLE



IT IS A SCIENTIFIC FACT that people are nosy and the thing they want to see the most is probably the thing you least want them to see. This explains why the Web is chock-full of stuff that is so unimportant, it doesn't matter if everybody can see it. Stuff like UFO chat lines, recipes for zucchini bread and short stories that nobody would publish on real paper. True, there is some business stuff. But it's mostly "brochureware" — general information aimed at the broadest audience, and therefore not terribly critical to anyone.

THIS IS BECAUSE, IN TECHNOLOGICAL TERMS, SECURITY IS CRUMMY. True, you can prevent people from getting into your system. But once they're in, they're in. The secretary in Accounting sees what your Vice President of Finance sees. Your freelance brochure writer sees what your compensation consultant sees. Everybody gets into everybody else's business. It's HUMAN NATURE. Thus, the Web is not used to let the right people get to the kind of useful-but-sensitive information they need to do their jobs.

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YES. Lotus Domino is for security on the Web. Who gets the facts. Who gets the cold shoulder. And who has the authority to make changes to what.

Lotus
Working Together™

THE S&P 500

Business Week's Industry Rankin

			MARKET VALUE			SALES			PROFITABILITY	
			FEB 21 1996 \$ MIL.	TOTAL RETURN (1 YEAR)	TOTAL RETURN (3 YEARS)	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995	1-YEAR AVERAGE CHANGE	12 MONTHS 1996 \$ MIL.	CHANGE FROM 1995
13	340	SAFETY-KLEEN	1033.8	25.2	19.7	923.1	7	5.4	61.1	15
14	409	WMX TECHNOLOGIES	16146.5	16.8	38.5	9187.0	1	-0.9	477.8	-23
15	442	EG&G	1047.3	-3.6	32.5	1427.3	1	3.0	54.5	0
16	444	BROWNING-FERRIS INDUSTRIES	6715.9	8.5	20.0	5843.6	-1	18.8	-100.3	NM
17	463	R.R. DONNELLEY	4586.8	-15.3	6.5	6599.0	1	16.3	-157.6	NM
18	488	DUN & BRADSTREET	4275.6	6.3	20.5	2159.2	0	-27.1	-27.3	NM
19	INC	COGNIZANT	5661.1	-3.5 d	NA	1730.6	12	NA	195.5	120

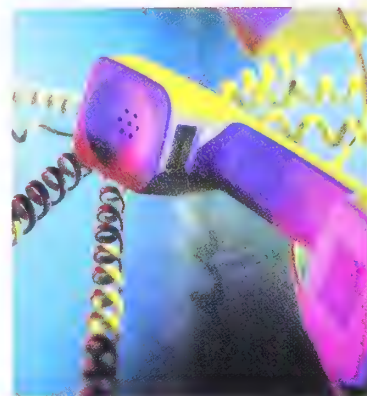
22 TELECOMMUNICATIONS

INDUSTRY AVERAGE			23006.4	16.9	78.9	12633.1	8	14.1	1182.3	26
1	21	TELLABS	7637.3	82.8	547.6	869.0	37	38.3	118.0	2
2	47	NORTHERN TELECOM	19339.4	56.7	153.0	12847.0	20	16.8	623.0	32
3	52	BELLSOUTH	46205.4	21.4	93.0	19040.0	6	6.2	2863.0	83
4	90	AMERITECH	35423.5	11.0	76.3	14917.0	11	8.2	2134.0	6
5	95	GTE	46108.3	13.7	75.4	21339.0	7	2.6	2798.0	9
6	102	SBC COMMUNICATIONS	34257.8	5.8	64.1	13898.2	10	9.1	2101.2	11
7	109	MCI COMMUNICATIONS	24314.0	20.8	34.2	18494.0	21	15.6	1237.0	126
8	116	PACIFIC TELESIS GROUP	17454.2	44.2	49.8	9588.0	6	0.8	1057.0	1
9	126	SPRINT	19046.5	22.5	54.6	14044.7	10	7.2	1190.9	26
10	161	US WEST COMMUNICATIONS GROUP	17057.8	12.9	69.5	10079.0	6	-1.2	1215.0	3
11	167	FRONTIER	3518.8	-29.8	9.5	2575.6	20	40.3	217.9	51
12	199	NYNEX	22973.9	4.4	63.4	13508.8	1	0.3	1346.0	26
13	206	AIRTOUCH COMMUNICATIONS	13719.8	-14.5	11.7	2251.7	39	28.9	199.0	51
14	229	AT&T	64572.8	-7.8	20.3	52184.0	3	-11.7	5608.0	75
15	288	BELL ATLANTIC	30643.8	8.3	51.6	13081.4	-3	-0.1	1739.4	-7
16	321	WORLDCOM	10771.8	30.2	86.7	4485.1	21	58.5	-2188.9	NM
17	341	ALLTEL	6565.0	6.2	39.4	3192.4	3	10.4	291.7	-18
18	456	SCIENTIFIC-ATLANTA	1369.2	7.1	27.0	1088.5	-3	15.0	21.1	-57
19	484	DSC COMMUNICATIONS	2417.9	-40.6	-27.5	1380.9	-3	25.3	-7.6	NM
20	INC	LUCENT TECHNOLOGIES	36731.6	81.7 e	NA	23797.0	11	NA	1083.0	NM

23 TRANSPORTATION

INDUSTRY AVERAGE			7097.1	9.9	28.7	8108.5	9	5.4	475.1	43
1	67	BURLINGTON NORTHERN SANTA FE	12900.4	4.1	40.9	8187.0	33	20.6	889.0	349
2	175	AMR	7541.6	-2.9	26.5	17753.0	5	4.2	1105.0	476
3	204	UNION PACIFIC	14834.1	32.2	56.3	8786.0	17	7.1	733.0	18
4	208	US AIRWAYS GROUP	1292.4	19.3	64.3	8142.4	9	5.0	263.4	121
5	232	FEDERAL EXPRESS	5942.6	38.0	36.1	10817.9	10	10.0	308.2	-2
6	25	CSX	10193.6	1.9	11.1	10536.0	2	5.8	855.0	38
7	253	CONRAIL	8371.8	43.2	77.7	3714.0	1	2.1	342.0	30
8	291	NORFOLK SOUTHERN	11153.7	14.0	36.6	4770.0 y	2	2.2	770.4	8
9	323	SOUTHWEST AIRLINES	3442.7	-19.7	-33.5	3406.2	19	13.7	207.3	14
10	417	DELTA AIR LINES	5988.4	7.3	62.1	12952.0	6	2.1	249.0	-51

INVESTMENT DATA								
5-YEAR MARKET RETURN 1995	RETURN ON INVESTED CAPITAL	RETURN ON COMMON EQUITY	52-WK HIGH/LOW \$	12-MONTH HIGH/LOW \$	P-E RATIO	DIVIDEND YIELD	EARNINGS PER SHARE 1996	52-WK HIGH/LOW PER SHARE 1996
6.2	8.1	13.2	18	19/13	17	2.03	1.05	1.15
6.8	3.4	8.6	33	38/28	34	1.97	0.97	1.76
3.8	11.1	14.4	22	25/16	19	2.53	1.15	1.35
6.4	-1.9	-3.9	32	33/21	-63	2.15	-0.50	1.58
4.6	-5.3	-9.4	31	39/29	-29	2.49	-1.04	1.81
10.1	-2.5	-2.5	25	67/21	-156	3.52	-0.30	1.80
5.8	33.2	33.2	33	38/30	29	0.36	1.15	1.74
8.0	11.0	22.0	44	48/32	24	2.85	1.79	2.48
18.2	19.9	20.0	43	47/22	66	NA	0.64	1.19
4.4	9.5	12.7	75	77/45	31	0.70	2.40	3.03
8.7	13.4	21.6	47	48/35	16	3.09	2.88	2.79
15.0	18.2	28.8	65	67/50	17	3.50	3.87	4.20
12.8	12.3	40.2	48	49/38	17	3.93	2.89	3.18
14.9	17.1	30.7	57	60/46	16	3.03	3.46	3.73
3.6	7.4	10.5	36	38/22	21	0.14	1.73	1.84
11.6	11.7	40.3	41	42/26	16	3.09	2.47	2.46
7.4	10.4	14.2	44	46/35	16	2.26	2.79	2.55
12.5	12.7	31.0	36	38/27	14	6.03	2.55	2.54
6.8	13.1	19.9	22	33/20	16	3.86	1.32	1.59
8.0	7.6	19.9	52	59/42	17	4.52	3.08	3.86
8.1	2.6	3.5	27	34/23	76	NA	0.36	0.52
6.3	19.4	26.6	40	69/33	11	3.31	3.47	3.48
13.9	12.7	23.9	70	75/55	18	4.11	3.96	4.70
7.2	0.5	1.2	26	29/18	-5	NA	-5.50	0.29
11.4	7.8	14.2	35	37/27	23	3.18	1.53	2.10
4.4	4.4	4.4	18	20/12	66	0.34	0.27	0.81
13.6	-0.5	-0.7	21	37/13	-344	NA	-0.06	0.90
-4.0	21.0	30.8	58	61/30	35	0.52	1.66	2.08
4.5	6.5	13.5	58	66/47	16	1.82	3.70	5.21
3.2	8.9	15.6	84	90/76	15	1.42	5.70	6.86
1.1	10.3	20.9	83	98/75	7	NA	12.64	10.31
8.3	4.5	9.1	61	75/50	18	2.83	3.36	3.95
1.6	6.4	179.4	20	26/15	7	NA	2.69	2.56
3.2	7.5	11.2	52	53/34	19	NA	2.68	3.34
6.0	9.2	17.1	47	53/41	12	2.21	4.00	4.29
7.2	6.4	10.6	105	108/64	25	1.82	4.25	6.20
15.3	11.3	15.5	89	97/76	15	2.69	6.09	6.62
6.4	9.1	12.8	24	33/21	17	0.19	1.37	1.62
4.2	4.4	7.9	82	87/67	48	0.24	1.69	13.06



Switch Hit

Tiny Tellabs (NYSE:TEL) may seem a surprising star of the telecom sector. But a closer look at the Lisle (Ill.) maker of telephone transmission equipment shows there's no mystery. While phone-service providers such as AT&T and the Baby Bells struggle against rivals, Tellabs specializes in the sophisticated computer-switching equipment they all need to modernize their networks. Shareholders couldn't be happier: Tellabs' 548% total return for the past three years ranked second among the S&P 500 companies.

FOOTNOTES TO TABLES APPEAR ON PAGE 119.
ALPHABETICAL INDEX OF COMPANIES
BEGINS ON PAGE 152

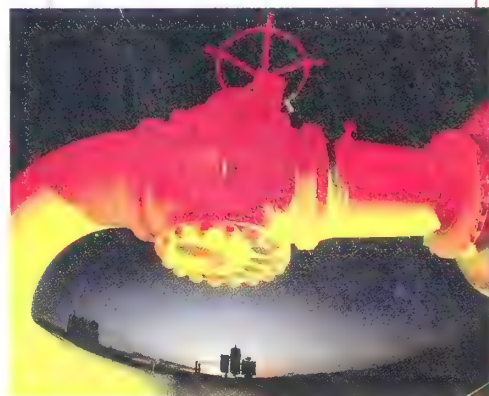
THE S&P 500

Business Week's Industry Ranking

			MARKET VALUE			SALES			PROFITABILITY	
			12 MONTHS 1995 \$ MIL	TOTAL RETURN 1 YEAR	TOTAL RETURN 1 YEAR	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995	5 YEAR AVERAGE CHANGE	12 MONTHS 1996 \$ MIL	CHANGE FROM 1995
11	433	RYDER SYSTEM	2580.8	24.2	24.4	5519.4	7	9.5	-31.3	NM
12	486	CALIBER SYSTEM	923.0	-42.8	-58.6	2718.1	11	-17.3	9.9	-89
24 UTILITIES										
INDUSTRY AVERAGE			5219.3	11.5	44.5	4459.3	11	6.4	416.2	8
1	36	PANENERGY	6625.1	49.8	106.8	7536.8	52	47.5	361.1	19
2	64	WILLIAMS	6529.0	31.0	167.5	3531.2	24	28.7	362.3	21
3	82	NORAM ENERGY	2041.2	62.5	107.0	4788.5y	62	16.1	95.1	45
4	173	SONAT	4302.1	44.1	83.9	3394.9	74	23.6	201.2	4
5	174	ONEOK	795.3	40.7	82.2	1234.6y	20	16.8	56.6	30
6	214	COLUMBIA GAS SYSTEM	3481.6	43.6	118.8	3354.0y	27	-0.7	221.6	NM
7	219	CONSOLIDATED NATURAL GAS	5000.8	24.8	41.7	3794.3y	15	6.3	298.3	1297
8	251	CINERGY	5499.1	19.1	69.3	3242.7	7	5.8f	361.2	-4
9	256	TEXAS UTILITIES	9068.4	3.8	31.3	6550.9	16	5.7	840.0	NM
10	257	CENTRAL & SOUTH WEST	5243.7	0.5	14.0	5464.0ay	46	12.6	447.0a	6
11	262	NICOR	1712.3	26.4	45.3	1850.7y	25	2.2	121.2	21
12	290	PACIFICORP	6003.5	1.6	36.5	4293.8y	26	6.9	504.9	0
13	294	PEOPLES ENERGY	1193.7	13.1	34.1	1268.2	21	-1.3	104.8	43
14	296	SOUTHERN	14736.1	-4.8	28.0	10323.8	12	7.1	1214.9	2
15	309	FPL GROUP	8367.6	2.2	56.4	6036.8y	8	4.2	603.2	1
16	315	AMERICAN ELECTRIC POWER	7865.6	1.7	51.7	5849.2	3	3.5	629.4	8
17	320	UNICOM	4852.1	-28.5	2.0	6937.0	0	9.7	747.5	2
18	325	EDISON INTERNATIONAL	9644.5	33.6	46.7	8544.5y	2	2.8	764.2	-3
19	328	PACIFIC ENTERPRISES	2625.9	16.4	69.7	2563.0y	9	-4.9	210.0	7
20	334	OHIO EDISON	3490.0	1.6	37.7	2469.8	0	1.7	330.6	2
21	346	ENTERGY	6110.0	-2.7	-3.4	7163.5y	14	15.7	499.0	-11
22	351	DUKE POWER	9172.3	-5.2	35.6	4758.0y	2	3.6	730.0	2
23	353	ENSERCH	1460.2	43.8	37.2	2142.6y	11	5.7	22.7	74
24	354	CAROLINA POWER & LIGHT	5583.5	4.8	58.0	2995.7	0	1.5	391.3	5
25	356	CONSOLIDATED EDISON CO. OF N.Y.	7401.9	1.8	31.8	6959.7	6	3.5	694.1	-4
26	361	HOUSTON INDUSTRIES	5735.1	6.4	33.8	4095.3y	10	-1.7	427.5	0
27	369	BALTIMORE GAS & ELECTRIC	4116.2	5.0	45.0	3153.2y	7	4.8	310.8	-8
28	376	EASTERN ENTERPRISES	687.8	-2.9	58.9	1007.3	6	-2.3	60.7	0
29	381	DOMINION RESOURCES	7267.7	1.9	19.6	4842.3y	4	3.0	514.7	10
30	382	GPU	4183.5	8.8	46.2	3918.1	3	3.0	342.8	-29
31	385	PP&L RESOURCES	3696.6	-2.2	19.9	2910.2y	6	2.1	357.4	2
32	388	NORTHERN STATES POWER	3246.0	-2.2	35.8	2654.2	3	3.4	274.5	0
33	411	PUBLIC SERVICE ENTERPRISE GROUP	6508.0	-1.9	18.3	6041.2y	3	1.7	620.1	-8
34	413	UNION ELECTRIC	3970.1	-3.1	28.9	2260.4	1	3.6	304.9	-3
35	424	PECO ENERGY	4868.1	-21.9	0.4	4283.6	2	2.5	543.9	-14
36	427	NIAGARA MOHAWK POWER	1606.1	36.9	-31.0	3986.0a	0	0.2	164.1a	15
37	441	DTE ENERGY	4408.0	-8.3	34.1	3645.4	0	1.1	325.3	-25
38	447	PG&E	9234.0	-6.3	-8.6	9610.0y	0	-3.6	755.2	-44

INVESTMENT DATA

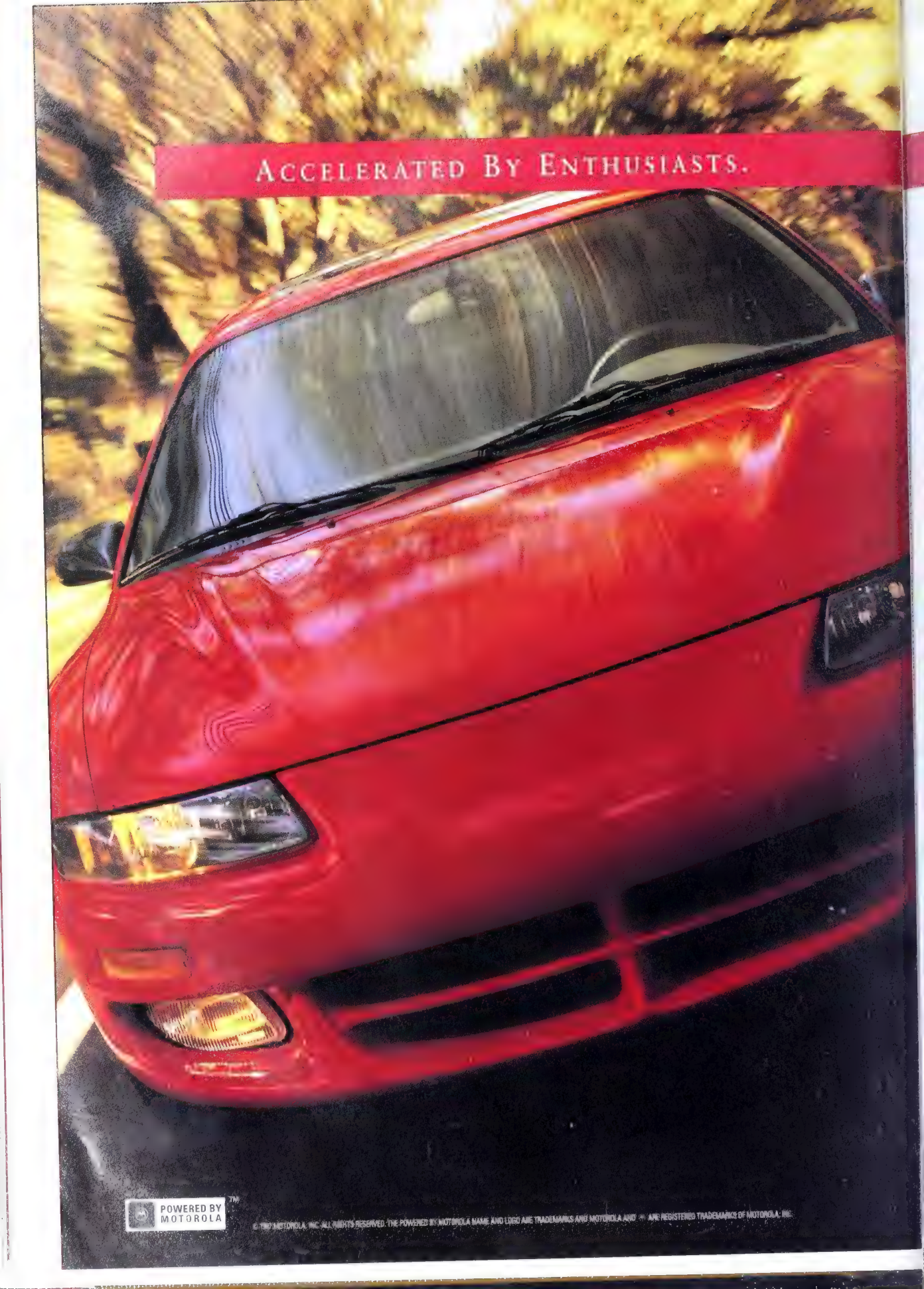
NET MARGIN 1995	RETURN ON INVESTED CAPITAL	RETURN ON COMMON EQUITY	RECENT SHARE PRICE \$	12-MONTH HIGH/LOW \$	P-E RATIO	DIVIDEND YIELD	FAIRLY PRICED 1996	ESTIMATED FAIRLY PRICED PER SHARE 1997
3.0	-0.8	-2.4	32	33/23	-83	1.90	-0.38	2.21
3.8	1.1	1.4	23	45/16	94	3.08	0.25	1.47
9.6	5.7	9.9	33	37/27	14	5.11	2.34	2.56
6.1	8.4	15.0	44	47/28	18	2.19	2.39	2.60
0.5	4.7	10.5	42	43/31	19	2.50	2.17	2.39
2.2	4.5	9.7	15	16/8	21	1.88	0.70	0.83
9.9	8.4	13.1	50	57/31	21	2.17	2.33	2.65
4.2	7.3	13.1	29	31/21	14	4.12	2.06	2.06
6.4	6.2	14.3	63	66/43	15	0.95	4.12	4.55
0.6	8.7	13.8	53	60/42	17	3.68	3.16	3.35
2.5	6.5	12.0	35	36/28	16	5.16	2.12	2.54
-0.9	4.8	10.5	40	44/39	12	5.20	3.35	3.37
1.3	3.7	7.5	25	30/23	17	7.00	1.46	2.24
6.7	9.7	16.5	34	37/25	14	3.84	2.42	2.43
4.8	4.9	10.6	20	23/20	13	5.30	1.62	1.67
7.0	8.5	14.9	34	37/30	11	5.51	3.00	2.53
3.0	6.1	10.5	22	26/21	13	5.94	1.68	1.80
0.7	7.2	11.8	46	48/42	14	4.21	3.33	3.46
0.3	5.9	11.5	42	45/39	13	5.73	3.14	3.23
0.6	4.9	9.5	23	35/22	7	7.11	3.09	2.72
9.4	4.8	10.0	22	23/15	14	4.49	1.64	1.71
8.4	6.9	12.7	31	33/25	13	4.66	2.37	2.30
3.2	5.6	10.6	23	25/19	11	6.56	2.10	2.16
8.9	2.7	5.5	27	30/25	15	6.76	1.83	2.56
5.3	7.5	12.3	46	53/43	14	4.66	3.37	3.59
0.7	0.5	1.1	21	24/14	131	0.95	0.16	0.53
2.4	7.1	13.5	37	39/34	14	5.10	2.66	2.80
1.1	6.8	11.4	32	35/26	11	6.67	2.93	2.93
1.5	5.4	9.2	23	25/21	14	6.63	1.66	1.91
1.5	4.6	8.5	28	30/25	15	5.74	1.85	2.32
6.4	7.3	14.2	34	40/31	11	4.72	2.97	2.87
0.1	4.4	8.2	40	44/37	15	6.39	2.65	3.24
2.7	4.5	8.2	35	36/30	14	5.60	2.47	3.21
2.7	5.4	10.4	23	26/22	11	7.30	2.05	2.06
0.7	6.6	11.0	47	53/45	12	5.87	3.82	3.82
1.5	5.4	9.6	28	32/25	12	7.75	2.42	2.68
4.0	6.7	11.1	39	44/36	14	6.53	2.86	3.09
5.1	5.4	9.5	22	33/22	10	8.23	2.24	2.23
3.6	1.9	4.0	11	11/7	13	NA	0.87	1.20
1.9	4.1	8.6	30	37/28	14	6.78	2.13	2.98
3.9	4.2	7.7	23	28/20	13	5.33	1.75	1.91



Powering Up

It's a turnaround story. It's a takeover stock. And it's a deregulation play. Being at the heart of three key trends has paid off big for PanEnergy, a star of the natural-gas industry. After suffering steep losses in 1990, the Houston pipeline company has charged back into newly competitive markets such as energy risk management and electricity marketing. Now, a pending merger with Duke Power will complete its transformation into one of the most successful energy-services giants to arise out of deregulation.

FOOTNOTES TO TABLES APPEAR ON PAGE 119;
ALPHABETICAL INDEX OF COMPANIES
BEGINS ON PAGE 152



ACCELERATED BY ENTHUSIASTS.



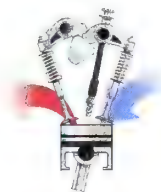
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Engine Control

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THE S&P 500

Alphabetical List of Companies

The number to the left of the company's name identifies its overall rank among Business Week's new performance ranking of the S&P 500 companies. That list begins on page 91. The numbers immediately to the right identify the company's rank in market value, sales, and profits, respectively, among the 500.

RANK	COMPANY (INDUSTRY GROUP)	OTHER RANKINGS		
		MARKET VALUE	SALES	PROFITS
A				
48	ABBOTT LABORATORIES (12)	27	107	40
448	ADVANCED MICRO DEVICES (9)	285	406	476
393	AETNA (17)	114	68	303
366	AHMANSON (H.F.) (17)	314	288	358
137	AIR PRODUCTS & CHEMICALS (4)	168	258	184
206	AIRTOUCH COMMUNICATIONS (22)	109	385	307
87	ALBERTO-CULVER (6)	438	430	418
249	ALBERTSON'S (10)	171	81	160
338	ALCAN ALUMINUM (16)	188	167	187
189	ALCOA (16)	121	88	150
120	ALLEGHENY TELEDYNE (5)	297	282	284
391	ALLERGAN (12)	411	462	416
144	ALLIEDSIGNAL (5)	72	75	81
79	ALLSTATE (17)	51	31	34
341	ALLTEL (22)	219	321	241
165	ALZA (12)	398	497	401
459	AMDAHL (18)	458	432	494
236	AMERADA HESS (11)	272	140	122
375	AMERICAN BRANDS (6)	173	207	158
315	AMERICAN ELECTRIC (24)	190	204	127
81	AMERICAN EXPRESS (17)	46	64	38
179	AMERICAN GENERAL (17)	170	181	139
326	AMERICAN GREETINGS (14)	405	397	342
45	AMERICAN HOME (12)	33	73	39
83	AMERICAN INTL. GROUP (17)	16	24	18
240	AMERICAN STORES (10)	222	52	210
90	AMERITECH (22)	40	70	32
49	AMGEN (12)	91	387	119
60	AMOCO (11)	30	18	23
379	AMP (9)	177	220	243
175	AMR (23)	195	57	72
18	ANDREW (9)	349	477	395
100	ANHEUSER-BUSCH (6)	67	108	68
260	AON (17)	209	278	206
489	APPLE COMPUTER (18)	422	141	498
77	APPLIED MATERIALS (15)	163	274	172
372	ARCHER DANIELS (10)	146	78	155
472	ARMCO (16)	499	427	453
330	ARMSTRONG WORLD (6)	379	394	333
371	ASARCO (16)	461	353	364
313	ASHLAND (11)	381	92	339
91	ATLANTIC RICHFIELD (11)	73	53	42

RANK	COMPANY (INDUSTRY GROUP)	OTHER RANKINGS		
		MARKET VALUE	SALES	PROFITS
229	AT&T (22)	13	11	5
443	AUTODESK (18)	449	493	446
101	AUTOMATIC DATA PROCESSING (18)	120	277	162
220	AUTOZONE (8)	336	378	328
132	AVERY DENNISON (15)	320	319	321
123	AVON PRODUCTS (6)	189	242	223
B				
153	BAKER HUGHES (11)	271	326	310
487	BALL (7)	489	392	458
369	BALTIMORE G&E (24)	318	325	225
93	BANC ONE (3)	75	138	52
111	BANK OF BOSTON (3)	180	215	123
66	BANK OF NEW YORK (3)	86	235	82
68	BANKAMERICA (3)	32	45	20
178	BANKERS TRUST (3)	197	159	132
387	BARD (C.R.) (12)	446	460	400
110	BARNETT BANKS (3)	159	286	145
394	BARRICK GOLD (16)	152	452	294
478	BATTLE MOUNTAIN GOLD (16)	443	495	479
474	BAUSCH & LOMB (12)	419	409	410
176	BAXTER INTL. (12)	111	222	140
451	BAY NETWORKS (18)	332	398	480
210	BECTION, DICKINSON (12)	230	349	237
288	BELL ATLANTIC (22)	48	87	41
52	BELLSOUTH (22)	24	50	21
181	BEMIS (7)	415	431	391
125	BENEFICIAL (17)	330	405	249
492	BETHLEHEM STEEL (16)	483	248	493
439	BEVERLY ENTERPRISES (12)	452	313	440
239	BIOMET (12)	441	491	392
398	BLACK & DECKER (15)	377	239	341
450	BLOCK (H&R) (17)	364	422	448
192	BOEING (1)	38	34	73
467	BOISE CASCADE (19)	450	233	461
39	BOSTON SCIENTIFIC (12)	126	441	330
430	BRIGGS & STRATTON (15)	459	458	409
14	BRISTOL-MYERS SQUIBB (12)	12	69	22
314	BROWN-FORMAN (6)	370	436	332
444	BROWNING-FERRIS (21)	212	205	483
171	BRUNSWICK (14)	382	324	317
67	BURLINGTON NORTHERN SANTA FE (23)	113	155	93
332	BURLINGTON RESOURCES (11)	253	453	264

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Alphabetical List of Companies

The number to the left of the company's name identifies its overall rank among Business Week's performance rankings. For an explanation of other rankings, see page 152.

RANK	COMPANY (INDUSTRY GROUP)	OTHER RANKINGS			RANK	COMPANY (INDUSTRY GROUP)	OTHER RANKINGS		
		MARKET VALUE	SALES	PROFITS			MARKET VALUE	SALES	PROFITS
C									
234	CABLETRON SYSTEMS (18)	299	449	325	107	CPC INTERNATIONAL (10)	130	126	138
486	CALIBER SYSTEM (23)	480	352	460	205	CRANE (21)	451	416	403
183	CAMPBELL SOUP (10)	71	163	117	156	CROWN CORK & SEAL (7)	199	153	246
354	CAROLINA POWER (24)	256	337	189	233	CSX (23)	148	115	94
280	CASE (15)	331	230	207	237	CUC INTERNATIONAL (21)	155	401	378
106	CATERPILLAR (15)	98	59	55	404	CUMMINS ENGINE (2)	420	227	340
276	CENTEX (13)	466	293	399	318	CVS (12)	292	218	272
257	CENTRAL & SOUTH WEST (24)	270	221	177	465	CYPRUS AMAX MINERALS (16)	414	344	417
92	CERIDIAN (18)	387	438	320	D				
418	CHAMPION INTL. (19)	325	203	359	272	DANA (2)	361	162	229
491	CHARMING SHOPPES (8)	497	467	484	458	DARDEN RESTAURANTS (14)	471	323	415
112	CHASE MANHATTAN (3)	26	29	29	363	DATA GENERAL (18)	488	448	449
84	CHEVRON (11)	29	16	27	149	DAYTON HUDSON (8)	181	25	166
69	CHRYSLER (2)	59	9	12	38	DEAN WITTER, DISCOVER (17)	110	136	86
238	CHUBB (17)	150	195	115	114	DEERE (15)	137	103	97
118	CIGNA (17)	124	51	77	3	DELL COMPUTER (18)	116	166	148
378	CINCINNATI MILACRON (15)	482	426	423	417	DELTA AIR LINES (23)	236	90	267
251	CINERGY (24)	259	317	200	464	DELUXE (18)	390	413	425
271	CIRCUIT CITY STORES (6)	366	169	351	485	DIGITAL EQUIPMENT (18)	268	79	495
4	CISCO SYSTEMS (18)	35	223	79	402	DILLARD DEPT. STORES (8)	356	193	273
86	CITICORP (3)	18	21	11	96	DISNEY (WALT) (14)	23	39	50
99	CLOROX (6)	228	377	276	381	DOMINION RESOURCES (24)	200	241	151
104	COASTAL (11)	276	100	156	463	DONNELLEY (R.R.) (21)	298	189	488
25	COCA-COLA (6)	2	54	14	80	DOVER (15)	252	262	190
INC	COGNIZANT (21)	254	425	309	217	DOW CHEMICAL (4)	77	44	37
139	COLGATE-PALMOLIVE (6)	100	143	126	358	DOW JONES (20)	328	366	312
214	COLUMBIA GAS (24)	343	311	287	245	DRESSER INDUSTRIES (15)	261	182	260
50	COLUMBIA/HCA HEALTHCARE (12)	50	46	48	484	DSC COMMUNICATIONS (22)	403	445	465
426	COMCAST (20)	307	266	473	441	DTE ENERGY (24)	303	295	218
180	COMERICA (3)	216	345	186	351	DUKE POWER (24)	160	246	112
8	COMPAQ COMPUTER (18)	68	56	58	488	DUN & BRADSTREET (21)	311	393	468
187	COMPUTER ASSOCIATES (18)	90	273	239	58	DUPONT (4)	15	13	13
201	COMPUTER SCIENCES (18)	260	228	334	E				
360	CONAGRA (10)	112	30	291	376	EASTERN ENTERPRISES (24)	492	470	431
253	CONRAIL (23)	184	290	213	339	EASTMAN CHEMICAL (4)	308	244	194
141	CONSECO (17)	250	330	250	150	EASTMAN KODAK (14)	49	65	83
356	CONSOLIDATED EDISON (24)	196	179	116	241	EATON (9)	257	178	208
219	CONSOLIDATED NATURAL GAS (24)	282	283	236	319	ECHLIN (2)	418	314	356
302	COOPER INDUSTRIES (9)	289	225	224	495	ECHO BAY MINES (16)	474	499	489
415	COOPER TIRE & RUBBER (2)	436	434	384	184	ECOLAB (6)	400	439	381
457	COORS (ADOLPH) (6)	490	424	444	325	EDISON INTERNATIONAL (24)	154	149	102
146	CORESTATES FINANCIAL (3)	127	307	135	442	EG&G (21)	475	443	439
258	CORNING (15)	175	292	211	16	EMC (18)	178	382	191
228	COSTCO (8)	281	43	279					

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Alphabetical List of Companies

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RANK	COMPANY (INDUSTRY GROUP)	OTHER RANKINGS			RANK	COMPANY (INDUSTRY GROUP)	OTHER RANKINGS		
		MARKET VALUE	SALES	PROFITS			MARKET VALUE	SALES	PROFITS
115	EMERSON ELECTRIC (9)	64	102	78	283	GOODRICH (B.F.) (4)	408	388	385
211	ENGELHARD (4)	358	322	350	445	GOODYEAR TIRE & RUBBER (2)	186	85	390
151	ENRON (21)	141	82	136	382	GPU (24)	317	276	212
353	ENSERCH (24)	453	395	454	377	GRACE (W.R.) (4)	280	303	297
346	ENTERGY (24)	233	176	157	259	GRAINGER (W.W.) (21)	322	298	299
124	EXXON (11)	3	3	1	370	GREAT A&P (10)	470	121	420
					434	GREAT LAKES CHEMICAL (4)	383	390	265
					307	GREAT WESTERN FINANCIAL (17)	226	301	379
					19	GREEN TREE FINANCIAL (17)	269	472	226
					95	GTE (22)	25	38	24
					344	GUIDANT (12)	291	468	424
F					H				
41	FANNIE MAE (17)	31	27	25	119	HALLIBURTON (11)	193	170	234
232	FEDERAL EXPRESS (23)	239	109	227	279	HARCOURT GENERAL (5)	347	310	315
17	FEDERAL HOME LOAN (17)	65	99	61	455	HARLAND (JOHN H.) (18)	484	488	467
252	FEDERATED DEPT. STORES (8)	205	67	257	131	HARNISCHFEGER (15)	423	339	374
46	FIFTH THIRD BANCORP (3)	172	423	214	407	HARRAH'S ENTERTAINMENT (14)	429	435	394
26	FIRST BANK SYSTEM (3)	136	333	108	303	HARRIS (9)	374	289	316
35	FIRST CHICAGO NBD (3)	78	128	51	343	HASBRO (14)	337	334	306
78	FIRST DATA (18)	89	238	125	33	HEALTHSOUTH (12)	221	370	288
32	FIRST UNION (3)	57	117	49	160	HEINZ (H.J.) (10)	97	132	118
103	FLEET FINANCIAL GROUP (3)	96	158	89	142	HELMERICH & PAYNE (11)	472	496	438
352	FLEETWOOD ENTS. (13)	479	341	412	367	HERCULES (4)	290	400	219
461	FLEMING (10)	493	61	452	267	HERSHEY FOODS (10)	208	270	253
198	FLUOR (21)	264	98	254	51	HEWLETT-PACKARD (18)	17	14	26
212	FMC (15)	393	237	290	20	HFS (21)	176	479	329
246	FORD MOTOR (2)	34	2	9	295	HILTON HOTELS (14)	277	411	344
277	FOSTER WHEELER (21)	439	268	411	98	HOME DEPOT (8)	50	48	88
309	FPL GROUP (24)	185	202	133	480	HOMESTAKE MINING (16)	404	484	450
275	FREEPORT-McMORAN C&G (16)	225	410	285	133	HONEYWELL (9)	157	172	188
167	FRONTIER (22)	341	360	293	135	HOUSEHOLD INTL. (17)	153	234	147
322	FRUIT OF THE LOOM (6)	363	368	349	361	HOUSTON INDUSTRIES (24)	247	261	183
					410	HUMANA (12)	354	183	459
G					I				
97	GANNETT (20)	131	253	128	71	IBM (18)	11	8	6
61	GAP (8)	167	226	175	202	IKON OFFICE SOLUTIONS (5)	243	254	324
270	GENERAL DYNAMICS (1)	304	297	255	30	ILLINOIS TOOL WORKS (15)	140	236	161
42	GENERAL ELECTRIC (5)	1	5	2	348	INCO (16)	238	328	331
446	GENERAL INSTRUMENT (9)	352	354	463	108	INGERSOLL-RAND (15)	265	185	202
209	GENERAL MILLS (10)	142	217	176	482	INLAND STEEL (16)	478	249	422
286	GENERAL MOTORS (2)	28	1	8	1	INTEL (9)	4	40	7
129	GENERAL RE (17)	107	154	92	494	INTERGRAPH (18)	500	465	477
177	GENERAL SIGNAL (9)	406	399	369	396	INTERNATIONAL FLAVORS (4)	278	442	314
264	GENUINE PARTS (21)	258	211	217					
460	GEORGIA-PACIFIC (19)	210	89	338					
380	GIANT FOOD (10)	427	275	382					
483	GIDDINGS & LEWIS (15)	498	482	466					
28	GILLETTE (6)	36	127	87					
127	GOLDEN WEST (17)	319	357	197					

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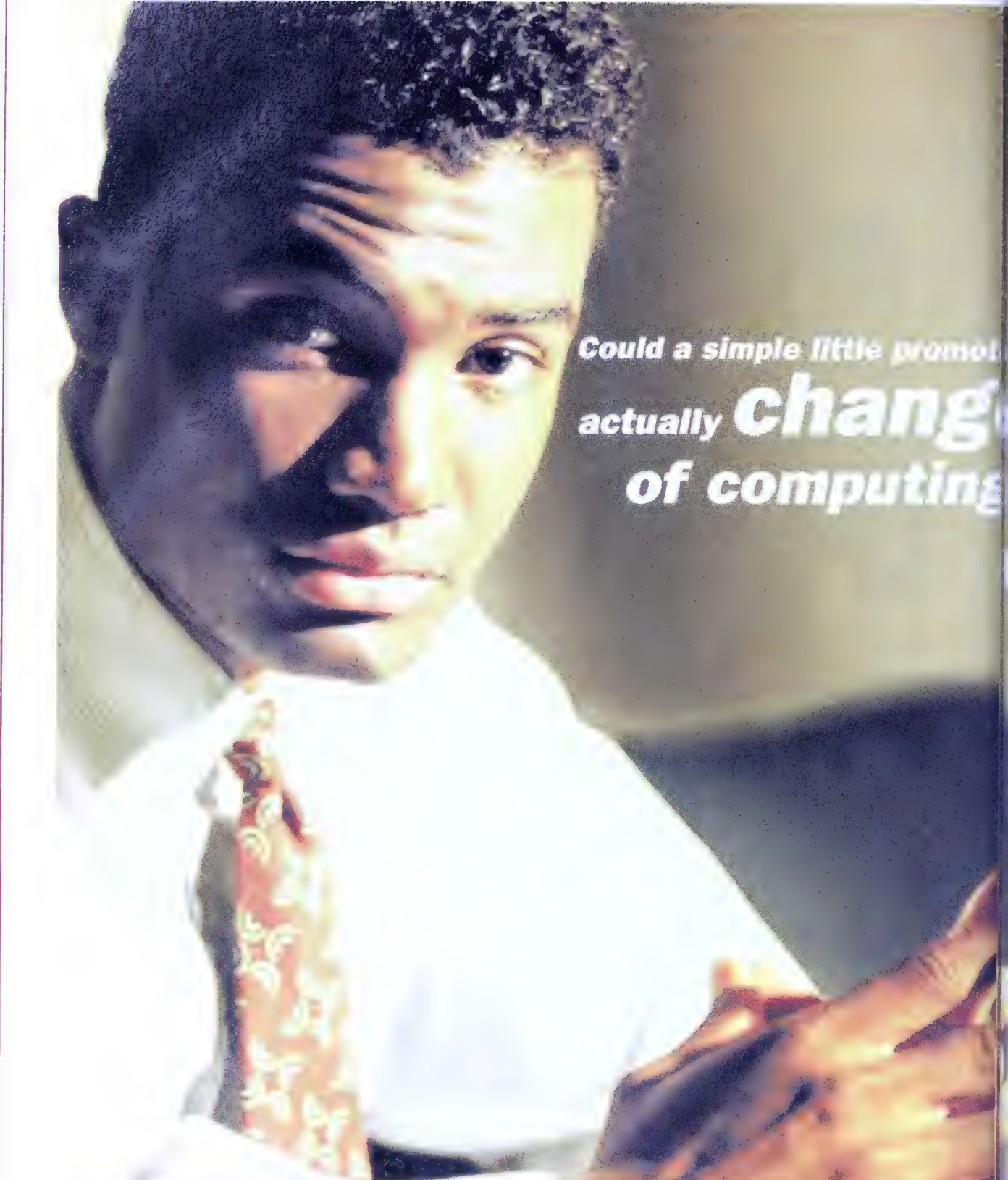


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actually **change**
of computing

Prices are suggested retail prices for 32MB of new desktop memory as of the date of publication. Actual dealer prices may vary. Prices on ECC, parity, server, workstation, DIMM, and other memory may be different. Promotion is available from now until the end of the promotion. Promotion starts February 24, 1997, and extends to May 31, 1997, or while supplies last. This promotion subject to change without notice. Kingston Technology Company, 1760 New York Avenue, Suite 100, Silver Spring, MD 20910. Tel: (714) 438-2699. © 1997 Kingston Technology Company. All rights reserved. Computing Without Limits is a trademark of Kingston Technology Company. Microsoft is a trademark of Microsoft Corporation.

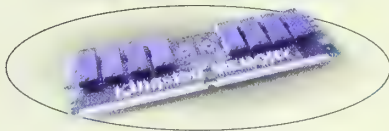
A memory promotion may not seem like a big thing. Then again, you've probably never seen a promotion like this before. Thanks to Microsoft® and Kingston®, users of Microsoft software are headed for the next level of computing with a special opportunity to get 32MB of Kingston memory for only \$199.* With more memory, you'll



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Alphabetical List of Companies

The number to the left of the company's name identifies its overall rank among Business Week's performance rankings. For an explanation of other rankings, see page 152.

RANK	COMPANY (INDUSTRY GROUP)	OTHER RANKINGS			RANK	COMPANY (INDUSTRY GROUP)	OTHER RANKINGS		
		MARKET VALUE	SALES	PROFITS			MARKET VALUE	SALES	PROFITS
364	INTERNATIONAL PAPER (19)	117	42	232	285	MAY DEPARTMENT STORES (8)	133	101	105
105	INTERPUBLIC GROUP (21)	321	362	302	355	MAYTAG (6)	416	335	365
301	ITT (14)	214	188	266	191	MBIA (17)	313	492	220
437	ITT HARTFORD GROUP (17)	174	93	482	9	MBNA (3)	128	336	179
335	ITT INDUSTRIES (5)	368	144	286	476	McDERMOTT INTL. (15)	469	312	464
J K									
374	JAMES RIVER (19)	394	212	343	166	McDONALD'S (14)	45	111	45
113	JEFFERSON-PILOT (17)	323	396	230	169	McDONNELL DOUGLAS (1)	106	77	98
138	JOHNSON CONTROLS (15)	340	113	271	73	McGRAW-HILL (20)	279	329	159
15	JOHNSON & JOHNSON (12)	10	36	19	109	MCI COMMUNICATIONS (22)	61	55	62
438	JOSTENS (15)	486	485	447	400	MEAD (19)	371	247	313
462	KAUFMAN & BROAD (13)	495	421	474	31	MEDTRONIC (12)	95	373	153
336	KELLOGG (10)	99	187	149	170	MELLON BANK (3)	143	315	111
293	KERR-McGEE (11)	367	407	289	420	MERCANTILE STORES (8)	433	332	375
225	KEYCORP (3)	122	213	100	6	MERCK (12)	5	47	10
63	KIMBERLY-CLARK (19)	54	83	53	265	MEREDITH (20)	457	476	434
269	KING WORLD (14)	455	486	360	24	MERRILL LYNCH (17)	93	28	43
428	KMART (8)	263	20	280	40	MGIC INVESTMENT (17)	300	483	262
218	KNIGHT-RIDDER (20)	333	351	256	298	MICRON TECHNOLOGY (9)	202	320	244
244	KROGER (10)	217	26	205	2	MICROSOFT (18)	6	131	28
L									
333	LAIDLAW (21)	306	374	370	349	MILLIPORE (9)	428	487	443
27	LILLY (ELI) (12)	21	171	46	148	MINNESOTA MINING (15)	39	71	47
324	LIMITED (8)	286	146	181	157	MOBIL (11)	22	5	17
345	LINCOLN NATIONAL (17)	237	184	152	317	MONSANTO (4)	66	134	192
250	LIZ CLAIBORNE (6)	372	389	347	431	MOORE (18)	413	363	352
29	LOCKHEED MARTIN (1)	85	23	56	54	MORGAN STANLEY (17)	145	84	80
88	LOEWS (17)	125	41	54	122	MORGAN (J.P.) (3)	74	110	44
342	LONGS DRUG STORES (12)	473	347	433	227	MORTON INTERNATIONAL (4)	249	287	215
230	LOUISIANA LAND (11)	442	475	414	347	MOTOROLA (9)	41	22	69
493	LOUISIANA-PACIFIC (19)	412	365	490	N				
196	LOWE'S (8)	248	147	240	368	NACCO INDUSTRIES (15)	496	383	441
287	LSI LOGIC (9)	324	456	355	337	NALCO CHEMICAL (4)	401	451	357
INC	LUCENT TECHNOLOGIES (22)	37	32	74	59	NATIONAL CITY (3)	135	264	109
M									
255	MALLINCKRODT (12)	365	379	308	468	NATIONAL SEMICONDUCTORS (9)	339	369	486
350	MANOR CARE (12)	437	447	421	359	NATIONAL SERVICE (9)	434	403	389
121	MARRIOTT INTL. (14)	206	118	228	12	NATIONSBANK (3)	43	62	30
140	MARSH & McLENNAN (17)	183	259	171	481	NAVISTAR INTERNATIONAL (2)	491	216	435
273	MASCO (13)	251	318	238	281	NEW YORK TIMES (20)	312	358	407
197	MATTEL (14)	203	285	195	89	NEWELL (15)	242	342	263
					408	NEWMONT MINING (16)	301	480	406
					427	NIAGARA MOHAWK (24)	447	271	335
					262	NIGOR (24)	435	414	376
					7	NIKE (6)	70	164	120
					82	NORAM ENERGY (24)	421	243	398
					421	NORDSTROM (8)	373	250	354
					291	NORFOLK SOUTHERN (23)	134	245	101

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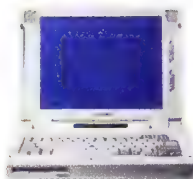
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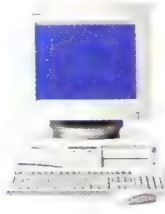
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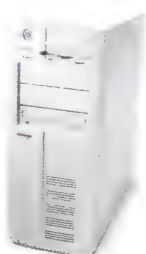
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Alphabetical List of Companies

The number to the left of the company's name identifies its overall rank among Business Week's performance rankings. For an explanation of other rankings, see page 152.

RANK	COMPANY (SECTOR)	OTHER RANKINGS		
		MARKET VALUE	SALES	PROFIT
388	NORTHERN STATES POWER (24)	355	356	252
47	NORTHERN TELECOM (22)	76	91	129
182	NORTHROP GRUMMAN (1)	310	160	277
22	NORWEST (3)	82	150	70
470	NOVELL (18)	315	450	380
327	NUCOR (16)	316	294	268
199	NYNEX (22)	62	80	57

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185	OCCIDENTAL PETROLEUM (11)	182	114	114
334	OHIO EDISON (24)	342	367	216
174	ONEOK (24)	487	457	437
11	ORACLE (18)	56	240	113
401	ORYX ENERGY (11)	407	463	336
469	OWENS CORNING (13)	409	281	492

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357	PACCAR (2)	396	255	305
328	PACIFIC ENTERPRISES (24)	392	361	298
116	PACIFIC TELESIS GROUP (22)	87	130	76
290	PACIFICORP (24)	235	256	154
274	PALL (5)	386	471	367
36	PANENERGY (24)	218	168	201
145	PARKER HANNIFIN (15)	353	280	275
424	PECO ENERGY (24)	287	257	146
399	PENNEY (J.C.) (8)	138	35	142
395	PENNZOIL (11)	380	364	368
294	PEOPLES ENERGY (24)	467	454	386
278	PEP BOYS (8)	425	420	397
311	PEPSICO (6)	20	19	71
306	PERKIN-ELMER (9)	360	459	436
10	PFIZER (12)	14	104	36
447	PG&E (24)	158	129	104
300	PHARMACIA & UPJOHN (12)	79	173	143
235	PHELPS DODGE (16)	296	284	170
74	PHILIP MORRIS (6)	7	10	3
23	PHILLIPS PETROLEUM (11)	132	66	59
128	PIONEER HI-BRED (10)	245	429	283
155	PITNEY BOWES (18)	162	279	167
477	PLACER DOME (16)	267	461	475
94	PNC BANK (3)	108	199	84
471	POLAROID (14)	426	381	457
453	POTLATCH (19)	463	437	428
164	PPG INDUSTRIES (13)	149	175	107
385	PP&L RESOURCES (24)	335	340	203
72	PRAXAIR (4)	191	252	248

RANK	COMPANY (SECTOR)	OTHER RANKINGS		
		MARKET VALUE	SALES	PROFIT
62	PROCTER & GAMBLE (6)	9	17	1
195	PROVIDIAN (17)	275	296	18
411	PUBLIC SERVICE ENT. GROUP (24)	224	201	13
331	PULTE (13)	485	375	42
436	QUAKER OATS (10)	294	229	26

R

224	RALSTON PURINA (10)	179	197	19
70	RAYCHEM (9)	329	428	29
292	RAYTHEON (9)	118	94	10
310	REEBOK INTERNATIONAL (6)	384	302	36
85	REPUBLIC NEW YORK (3)	273	346	18
416	REYNOLDS METALS (16)	295	177	38
193	RITE AID (12)	344	208	33
289	ROCKWELL INTERNATIONAL (5)	105	112	13
154	ROHM & HAAS (4)	246	272	19
188	ROWAN (11)	430	490	42
57	ROYAL DUTCH PETROLEUM (11)	8	7	
403	RUBBERMAID (15)	338	376	34
231	RUSSELL (6)	454	455	41
433	RYDER SYSTEM (23)	395	219	47

S

299	SAFECO (17)	266	263	17
340	SAFETY-KLEEN (21)	477	473	43
222	SALOMON (17)	227	137	9
168	SANTA FE ENERGY RESOURCES (11)	464	489	44
466	SANTA FE PACIFIC GOLD (16)	410	498	45
152	SARA LEE (10)	80	49	8
102	SBC COMMUNICATIONS (22)	44	76	3
37	SCHERING-PLOUGH (12)	52	214	6
75	SCHLUMBERGER (11)	58	139	9
456	SCIENTIFIC-ATLANTA (22)	456	466	45
186	SEAGATE TECHNOLOGY (18)	115	148	24
INC	SEAGRAM (6)	102	95	18
194	SEARS, ROEBUCK (8)	59	15	6
44	SERVICE CORP. INTL. (21)	213	380	25
207	SHARED MEDICAL (18)	460	481	44
143	SHERWIN-WILLIAMS (13)	283	260	28
254	SIGMA-ALDRICH (21)	362	469	35
429	SILICON GRAPHICS (18)	305	316	46
200	SNAP-ON (15)	402	440	37
173	SONAT (24)	309	309	30
296	SOUTHERN (24)	104	116	6
323	SOUTHWEST AIRLINES (23)	345	306	30
384	SPRINGS INDUSTRIES (15)	481	386	40

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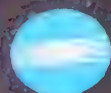
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The number to the left of the company's name identifies its overall rank among Business Week's performance rankings. For an explanation of other rankings, see page 152.

RANK	COMPANY (INDUSTRY GROUP)	OTHER RANKINGS			RANK	COMPANY (INDUSTRY GROUP)	OTHER RANKINGS		
		MARKET VALUE	SALES	PROFITS			MARKET VALUE	SALES	PROFITS
126	SPRINT (22)	81	74	67	320	UNICOM (24)	288	180	106
308	STANLEY WORKS (15)	348	355	396	INC	UNILEVER NV (10)	47	NR	NR
490	STONE CONTAINER (7)	465	231	485	425	UNION CAMP (7)	350	267	405
479	STRIDE RITE (6)	494	494	462	172	UNION CARBIDE (4)	240	200	134
312	ST. JUDE MEDICAL (12)	359	478	402	413	UNION ELECTRIC (24)	327	384	23
190	ST. PAUL (17)	241	209	144	204	UNION PACIFIC (23)	103	142	110
423	SUN (11)	424	105	491	297	UNION PACIFIC RESOURCES (11)	229	418	222
13	SUN MICROSYSTEMS (18)	123	165	141	475	UNISYS (18)	468	194	427
130	SUNTRUST BANKS (3)	129	269	131	216	UNITED HEALTHCARE (12)	156	120	204
406	SUPERVALU (10)	417	60	326	134	UNITED TECHNOLOGIES (1)	84	33	9
242	SYSCO (10)	231	72	242	147	UNOCAL (11)	151	224	174

T

473	TANDEM COMPUTERS (18)	448	408	451
412	TANDY (6)	376	196	481
248	TEKTRONIX (9)	444	417	393
422	TELE-COMMUNICATIONS (20)	165	161	496
21	TELLABS (22)	194	474	377
373	TEMPLE-INLAND (7)	369	305	371
215	TENET HEALTHCARE (12)	232	206	270
419	TENNECO (5)	215	190	292
65	TEXACO (11)	55	12	35
405	TEXAS INSTRUMENTS (9)	101	123	472
256	TEXAS UTILITIES (24)	164	191	96
226	TEXTRON (5)	187	133	163
136	THERMO ELECTRON (9)	262	350	322
282	THOMAS & BETTS (9)	432	404	432
34	3COM (18)	211	348	233
414	TIME WARNER (20)	92	122	487
268	TIMES MIRROR (20)	274	308	301
203	TIMKEN (15)	440	372	363
55	TJX (8)	357	186	296
263	TORCHMARK (17)	326	391	221
435	TOYS 'R' US (8)	207	124	366
305	TRANSAMERICA (17)	244	198	173
5	TRAVELERS GROUP (17)	42	37	31
221	TRIBUNE (20)	284	371	247
247	TRINOVA (15)	476	402	388
389	TRW (5)	220	125	319
INC	TUPPERWARE (15)	378	446	323
43	TYCO INTL. (15)	169	210	209

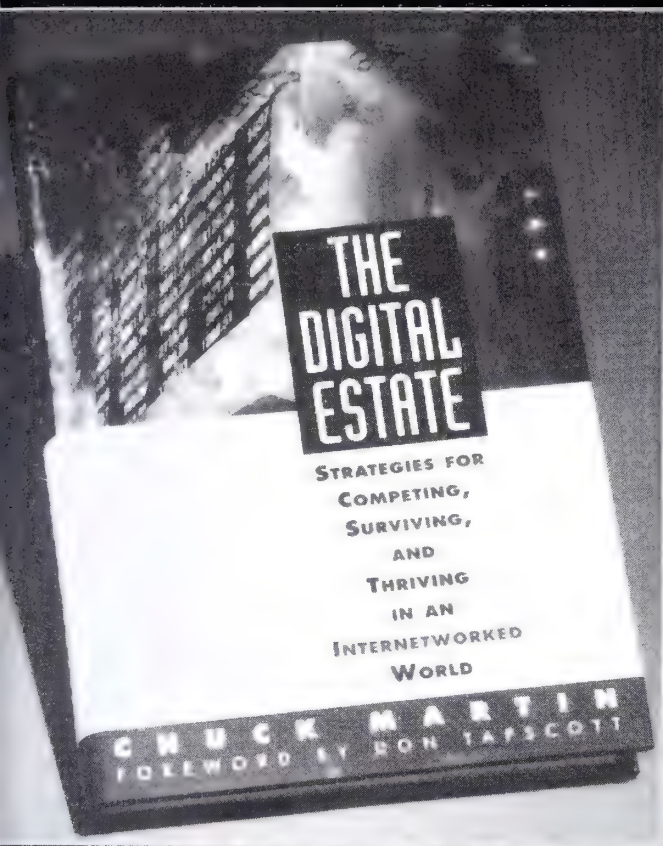
U V

53	U.S. BANCORP (3)	198	343	164
158	U.S. SURGICAL (12)	385	464	383

362	UNUM (17)	255	265	274
208	US AIRWAYS GROUP (23)	462	157	259
161	US WEST COMMUNICATIONS (22)	88	119	63
440	US WEST MEDIA (20)	166	338	478
243	USF&G (17)	391	300	26
383	USLIFE (17)	445	419	415
266	UST (6)	234	444	168
163	USX-MARATHON (11)	192	63	12
386	USX-U.S. STEEL (16)	389	192	25
261	VF (6)	302	232	235
316	VIACOM (14)	119	97	32

W X Y Z

159	WACHOVIA (3)	147	291	124
117	WALGREEN (12)	144	96	19
223	WAL-MART STORES (8)	19	4	1
56	WARNER-LAMBERT (12)	63	174	9
76	WELLS FARGO (3)	53	151	7
213	WENDY'S INTL. (14)	399	412	344
329	WESTERN ATLAS (11)	351	359	37
452	WESTINGHOUSE ELECTRIC (9)	201	152	49
392	WESTVACO (19)	375	331	31
432	WEYERHAEUSER (19)	161	106	16
449	WHIRLPOOL (6)	334	145	34
304	WHITMAN (5)	397	327	36
390	WILLAMETTE INDUSTRIES (19)	346	304	31
64	WILLIAMS (24)	223	299	19
365	WINN-DIXIE STORES (10)	293	86	27
409	WMX TECHNOLOGIES (21)	94	135	16
454	WOOLWORTH (8)	388	156	47
321	WORLDCOM (22)	139	251	49
397	WORTHINGTON INDS. (16)	431	433	40
284	WRIGLEY (WM.) JR. (10)	204	415	28
162	XEROX (18)	83	58	6



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GOVERNMENT FRAUD

WHISTLE-BLOWERS ON TRIAL

Corporate America takes its case to the Supreme Court

Dr. Charles W. Robinson Jr., a courtly 61-year-old pathologist, is an unlikely government informant. But the San Antonio physician is a leading reason the Justice Dept. won a record \$325 million fraud settlement against SmithKline Beecham Clinical Laboratories Inc. on Feb. 24. Four years ago, Robinson, medical and records director of a SmithKline lab, uncovered a suspicious bill charging Medicare separately for five tests normally sold together at lower cost. After complaining in vain to his employer about a pattern of billing abuses, he quit, filed a private whistle-blower lawsuit against SmithKline, and worked with federal investigators on the case.

Robinson is among a handful of corporate insiders who helped the government score in its most successful effort ever against health-care fraud: Operation LabScam. The current national campaign against Medicare billing fraud, begun in 1993, has resulted so far in \$631 million in civil and criminal settlements against the biggest players in the diagnostic blood-lab industry. It has also "spurred industry reform on a scale rarely seen as a result of government investigation," says Laurence J. Freedman, the Justice Dept. trial attorney who coordinated the cases.

DESPISED. The law that permitted Robinson to take on SmithKline is the little-known False Claims Act. It encourages employees to take the risk of suing employers ripping off federal programs by protecting them from dismissal and promising a maximum of 30% of the damages arising from any resulting case. Originally enacted during the Civil War to prevent government contractors from defrauding the Union Army, it was fortified after the Pentagon billing scandals of the early 1980s and has helped the government recover more than \$1.2 billion from fraudsters over the past decade. In addition to defense contractors and blood labs, it has also been turned against book distributors, construction companies, and mort-

gage lenders doing business with the federal government.

Popular though it is in some quarters, the law is widely despised by the

large chunk of Corporate America that does regular business with Uncle Sam. The day after the SmithKline settlement was announced, a broad business coalition begged the U.S. Supreme Court to clamp down. Arguing in *Hughes Aircraft Co. vs. Schumer*, a case involving claims that Hughes submitted fraudulent bills for a radar system for the bomber, opponents—including the U.S. Chamber of Commerce, the Electronics Industries Assn., the National Security Industrial Assn., and others—asked the Supreme Court to strengthen corporate defenses against the law.

Specifically, opponents want the law



SHAKEDOWN ARTISTS OR SAINTS?

Employees who blow the whistle on companies that cheat the federal government stand to gain huge rewards under the False Claims Act. But opponents say the law does more harm than good—and are looking to the Supreme Court for relief.

OPPONENTS SAY:

- ▶ The majority of whistle-blower lawsuits fail, wasting the time of corporate executives, judges, and federal investigators
- ▶ Disgruntled workers use the law as blackmail against employers
- ▶ Because of harsh penalties and negative publicity surrounding the suits, employers feel compelled to settle even weak cases

DEFENDERS SAY:

- ▶ The False Claims Act has decreased fraud in the defense and health-care industries
- ▶ The law has returned more than \$1.2 billion to the federal government
- ▶ Because cases are brought by private attorneys, the False Claims Act increases the Justice Dept.'s ability to police fraud

DATA: BUSINESS WEEK

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Legal Affairs

court to block whistle-blower suits, there has been a prior disclosure of the same allegations—even if the prior disclosure is less detailed and is ignored by the government. Lawyers on both sides say that such a change, though technical, could actually drastically lower the number of viable suits. The justice department, however, appeared skeptical of some of Hughes's arguments, and the betting is that companies will get little if any real protection. Given the fact that the Supreme Court has rejected several earlier appeals to consider the act, the Hughes case is likely to set the tone for whistle-blower claims for years.

What's the corporate lobby's bet?

By promising plaintiffs a share of damages, the False Claims Act encourages workers to take the risk of suing employers who are allegedly ripping off Uncle Sam

Companies say the law gives too much power to whistle-blowers and is encouraging an onslaught of meritless suits. According to even the Justice Dept., which favors a strong law, only about 11% of False Claims Act cases have produced a recovery. Nonetheless, defending a claim, even if baseless, can run \$400,000 or more, says Frederick Levy, a defense lawyer at McKenna Cuneo in Washington. And that doesn't take into account the time wasted by frivolous suits. Employees are forced to spend hours with lawyers. Justice Dept. attorneys are required to investigate every whistle-blower claim, and already overburdened federal judges must push the suits through the courts. "We're proponents of the law bandy about millions of dollars that have been recovered, it ignores the waste and the cost associated with it," says Levy.

In spite of the low success rate, the number of False Claims suits has climbed from 33 in 1987 to 360 last year. One reason: the lotterylike winnings of a few successful whistle-blowers. Medico fraud whistle-blower C. Jack Dowd, who played a small role in the Smith

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APRIL 14 - 19

Why he can look forward would have a century ago

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life expectancy was
40 years. In U.S.
today, women live to
be around 79 and
men around 73.*

REUTERS/USA Business Week

iving twice as long as he



tetanus, as well as antibiotics to fight infectious diseases. Not to mention important medications that have contributed to the successful treatment of heart disease and strokes.

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Finding new ways.

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Kline case, won more than \$20 million from his testimony in federal cases against National Health Laboratories and Metpath Inc. And plaintiffs' lawyers are making out so well that a small False Claims Act bar has actually emerged—a development that many government contractors believe is also fueling much of the litigation.

Ever since the late 1980s, opponents have been trying to persuade Congress and the courts to gut the False Claims Act. But defenders of the law say that the success of Operation LabScam proves why it is so important to keep it intact. Whistle-blowers taking advantage of the law have played important roles in five of the six largest settlements so far against fraudulent companies, say Justice Dept. lawyers.

BUILT-IN SPUR. The most important thing about the False Claims Act, proponents claim, is that it provides incentives for private attorneys to pursue a claim that the government might otherwise ignore. Once a case is filed, the government is required by law to investigate—a built-in spur to action. Take Dowden's case. A former salesman for Metpath, Dowden figured out in 1989 that he was losing clients because rival NHL was offering his doctors a discount for extra blood tests and making up the difference by charging Medicare more. Then he discovered Metpath was doing the same. After his bosses cut back his sales territory (allegedly because of his complaints), he quit, took a job as a low-paid car salesman, and informed the government. He says, however, that federal investigators initially ignored his claims.

But John R. Phillips, a Washington lawyer, eyeing the possibility of a big payoff, agreed to shoulder the costs of the initial investigation. It was his filing of a suit that finally got the government to notice Dowden's claims, Phillips says. "If you go to the government as an individual and say, 'Let me tell you about this,' you are just one of many things in a stack on somebody's desk," says Phillips. "But if a lawsuit is filed, then the government has to go see whether it is serious."

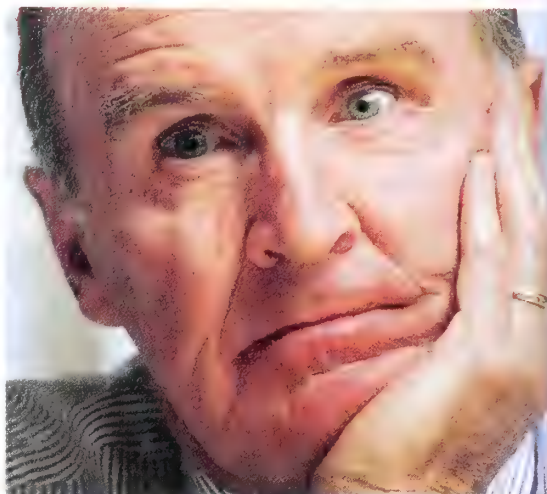
While some Justice Dept. lawyers think whistle-blowers are making too much money, others acknowledge that their contributions are invaluable. "It makes a big difference when someone says: 'Here's where to look,'" says James G. Sheehan, the Assistant U.S. Attorney in Philadelphia who brought the SmithKline case. That's why, despite Corporate America's complaints, it looks as if the False Claims Act is here to stay.

By Catherine Yang in Washington and Mike France in New York

Workplace

"You better get prepared like you've never been prepared... to operate in a strike and not flinch... We don't need some third party to give people voice"

JACK WELCH
CEO, General Electric



"Welch made a serious mistake talking like that.... I was stunned by [his] videotaped comments"

ED FIRE

President, International Union of Electronic Workers

UNIONS

HIGH TENSION AT GENERAL ELECTRIC

The jousting with labor turns ugly. A strike in June?

A war of words has broken out at General Electric Co. Although the company's labor pacts don't expire until June, angry denunciations already are flying back and forth between Chief Executive John F. "Jack" Welch and Edward L. Fire, newly elected president of the International Union of Electronic Workers (IUE).

Formal bargaining doesn't even start for three months, but both sides already are gearing up for a possible strike. To make matters worse, the IUE's chief negotiator, Dewey Minton, retired in Feb-

ruary, leaving no one with close ties to GE. A walkout would be GE's first national confrontation since a disastrous 1969 strike. The escalating tensions have prompted Fire to make a highly unusual plea for assistance from the AFL-CIO, which recently set up a corporate fairness unit to help unions mount public pressure campaigns against companies. GE provides the first test of the federation's ability to employ such tactics in bargaining. "We're trying to develop internal capacity to help unions that don't do these campaigns themselves,"



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says AFL-CIO Secretary-Treasurer Richard L. Trumka, who is in charge of the program.

Strike at GE erupted last November, when Fire, then the IUE's secretary-treasurer, toppled longtime President William H. Bywater. In his campaign, Fire vowed he would demand job security provisions from Welch like those the United Auto Workers won from Detroit auto makers last fall. Those agreements guarantee a set level of union employment. He also said he would call on GE to remain neutral during recruitment drives at nonunion GE facilities.

SHRIVELING SHARE. Welch reacted like a bull to a red flag. At the annual gathering of 400 GE line managers in Boca Raton, Fla., in early January, he blasted Fire's demands as "not for us in any way." He added: "You better get prepared like you've never been prepared...to operate in a strike and not flinch." Then, as it does every year, GE gave the unions a videotape of the remarks. An outraged Fire shot back an angry letter to Welch, saying he was "stunned by the videotaped comments you made." The union distributed the video and letter at the AFL-CIO Executive Council meeting in Los Angeles in late February. "Welch made a serious mistake talking like that," says Fire. Welch declined to be interviewed.

A strike is possible if neither side backs off on key issues (table). Take job security. Fire, who comes out of an IUE unit of General Motors Corp. workers, says he doesn't see why GE, with record profits, can't match Detroit's job guarantees. This is something the IUE, which

represents about half of GE's 38,500 unionized workers, has sought for years as it has watched GE outsource thousands of jobs to nonunion suppliers in the U.S. and abroad.

GE also has expanded capacity and new product lines in nonunion plants, while allowing union ones to shrink. In February, for instance, GE announced plans to move 280 jobs from a unionized steam turbine plant in Schenectady, N.Y., to a cheaper nonunion one in Bangor, Me., and to outside suppliers. The IUE has 45 days to devise a plan to match the costs—or lose the jobs. But the Schenectady site has shrunk from 13,000 to 2,000 union workers since 1971, mostly because of outsourcing.

Such moves are the main reason why the ranks of all 14 unions at GE have plunged by 42% since 1991. Their share of GE's U.S. employment has shriveled from 39% to 25%. The unions haven't been able to stop the process. Instead, they have won severance and early retirement plans for laid-off workers, which GE likely will improve in the cur-

WELCH VS. HIS UNIONS

General Electric CEO Welch is already sparring with the company's 14 unions, whose contracts expire on June 29.

The issues:

PENSIONS The unions want full pensions after 30 years. Says Welch: "Why would we send a 47- or 48-year-old... experienced employee home...and pay them not to come to work?"

JOB SECURITY Labor thinks GE should guarantee employment levels, à la Detroit. Welch says these are "crazy demands that are noncompetitive."

NEUTRALITY Labor says GE should not oppose union recruitment drives. Welch: "The issue of neutrality makes absolutely no sense to us."

DATA: GENERAL ELECTRIC CO., BUSINESS WEEK

rent talks. But Welch, UAW-style guarantees are "crazy demands," as he told managers in January.

Welch is likely to give even less ground on neutrality. GE does not routinely fire union supporters during elections, as many companies do. But it does fight unions aggressively. An in-house union at the company's Fairfield (Conn.) headquarters, called Personnel Relations, sends union avoidance experts to locations facing a union drive. They sum up employees to so-called captive-audience meetings, where attendance is mandatory and managers attack union unwanted "third parties," union organizers say. The unit shows employees a

union videos and films.

The IUE tried to get GE to curb its practices in 1991 but got nowhere. Now Fire intends to try again in talks. IUE's total membership has plunged 30% since 1987, to 130,000. It has broken for some years, and Fire is slashing staff and expenses. To survive long term, it must begin growing again. Welch, however, believes that GE should tell workers not to join a union. "We don't need some third party to give people voice," he said in January.

PRESSURE POINTS. Fire hopes the AFL-CIO can help loosen the company's grip. On Mar. 11, officials from the AFL-CIO corporate affairs and international affairs units presented ideas for a pressure campaign to local leaders from all 14 unions. The goal: to hit GE's vulnerable spots. Welch will give ground without a strike. Already, one GE union, the Teamsters, filed a proxy resolution in early March challenging Welch's salary. Next, the unions may publicize the plight of thousands of *maquiladora* workers at the U.S.-Mexico border and GE's practice of shifting jobs to China and Hungary for market access.

Still, public pressure campaigns take years to develop. So union officials plan to start as many actions as possible by June. Settle or strike, the union and GE are in for a rockier relationship than they have had for a long time.

By Aaron Bernstein in Washington

A BLAST FROM NEUTRON JACK

General Electric CEO John F. Welch isn't just hard-nosed with union officials: Everyone at GE gets the same treatment. He made that clear at a January managers' gathering in Boca Raton, Fla., where a 45-minute videotape was made of his remarks.

In fact, many GE employees are still upset about Welch's attack on what he called "C" managers, which created fear and uncertainty. Don't bother trying to make them into "B" or "A" employees, he lectured. That's "a wheel-spinning exercise. Push C's out the door to B companies or C companies," he said. GE is an "A-plus company" that can get anyone it wants, said Welch. "Shame on any of you who

aren't facing" up to the mediocre performers: "Move 'em out early," he told his operating managers.

Welch is just as harsh about entire operating units. For instance, he praised recent GE Capital Corp. acquisitions but said some "aren't so pretty." GECC's challenge "will be to get in and do some of the fix or sell activities that have to be done." Welch did not specify on the tape the units he meant. But Employers Reassurance Corp. has been rumored to be for sale. Four other units are underperformers, analysts say: trailer leasing, truck leasing, a leveraged-buyout financing operation, and a muni bond insurer called FGIC.



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THE COMING JOB BOTTLENECK

What an aging workforce means for everyone else

Amid the crank and whirl of Cummins Engine Co.'s diesel factory in Columbus, Ind., hundreds of middle-aged men huddle around high-tech, computerized machinery. They make good money, about \$18 an hour, and are in no rush to retire. "You can't depend on the federal government" to support older people, says worker and union official Conrad Bowling, 46. Meanwhile, the few younger men on the floor are temps, most of them stuck in low-skill jobs that pay, at most, \$8 an hour.

This is America's demographic reality: Its workforce is growing old. The scene is the same on factory floors across Columbus, a thriving manufacturing center of 37,000, and in towns throughout the Midwest and Northeast. America's baby boomers, 76 million people aged 37 to 51, are clogging the workplace, hanging on to the best-paid jobs, and blocking the advancement of younger workers.

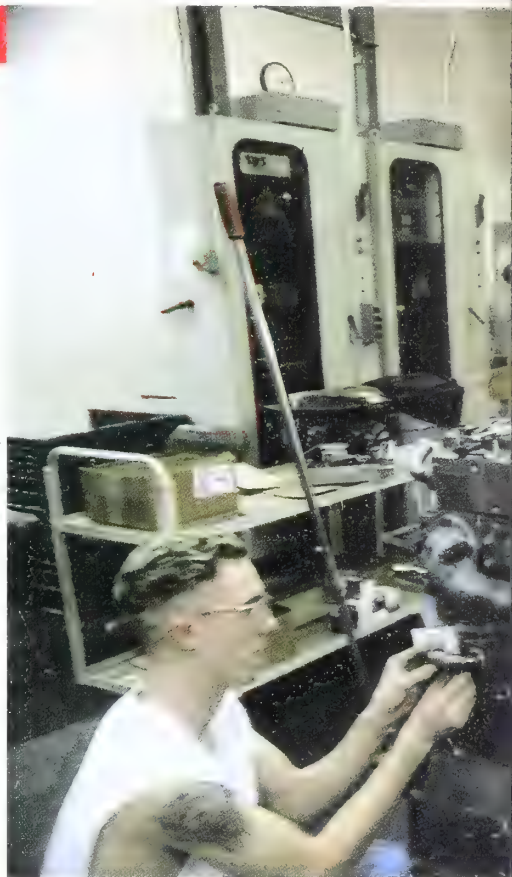
It is, of course, every generation's story—a transitional battle for resources and power between young and old. But this clash is different. The boomers are a demographic anomaly, far more numerous than the generations that preceded or will follow them. Unnerved by the prospect of financial insecurity, moreover, they threaten to work well past traditional retirement age.

The result is "a train wreck waiting to happen," says Carol D'Amico, a Hudson Institute senior fellow and co-

author of *Workforce 2020—Work and Workers in the 21st Century*, to be published in April. The 130-page study, a much anticipated sequel to Hudson's pathbreaking 1987 report, *Workforce 2000*, examines, among other phenomena, the impact of aging baby boomers on their employers and communities.

NO CHOICE. Hudson, a conservative think tank, predicts that as the first boomers move into their 60s by 2010, they likely will put off retirement, some working well into their 70s. Many will be driven by the prospect of having to wait longer for Social Security and Medicare benefits or by fears that Medicare reform will leave them with higher medical bills. For others, skimpier employer-sponsored pensions simply won't pay the bills. As a result, workforce participation rates for men and women aged 55 to 64 could, Hudson estimates, be as much as 14% higher than current forecasts, adding 11.5 million workers by 2020 (charts).

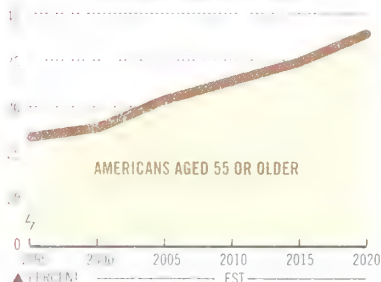
For employers, the implications are enormous. They're likely to be liable for higher wages and far higher medical costs and pension contributions. Per capita health-care costs for men aged 50 to 54, for instance, are three times those for men 30 to 34, according to



benefits consultant Watson Wyatt. Companies could face new expenses related to the care of workers' elderly parents.

Employers also will have to count what the authors call a "graybeard clogging" of senior employees by creating part-time slots for them in order to make way for promising younger workers. Otherwise, "baby busters," born from 1965 to 1985, will chafe at the limited opportunities—not to mention loss of income. More important, they will be less experienced and less skilled when boomers finally do retire. Since their cohort is far smaller in number than the boomers', the nation faces the prospect of a shrinking, less skilled workforce after 2020—a phenomenon that would dampen economic growth. "There just aren't enough people in

AMERICANS ARE GETTING OLDER...

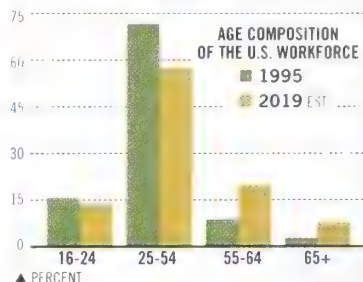


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ELIGIBILITY AGE FOR FULL SOCIAL SECURITY BENEFITS			
YEAR BORN	RETIREMENT AGE	YEAR BORN	RETIREMENT AGE
1937	65 yrs	1943-54	66 yrs
1938	+2 mos	1955	+2 mos
1939	+4 mos	1956	+4 mos
1940	+6 mos	1957	+6 mos
1941	+8 mos	1958	+8 mos
1942	+10 mos	1959	+10 mos
		1960*	67 yrs

*AND LATER

...SO MANY WILL WORK LONGER



DATA: CENSUS BUREAU, SOCIAL SECURITY ADMINISTRATION, LABOR DEPT., HUDSON INSTITUTE



When Columbus' boomers finally do retire, there will be fewer younger workers to replace them—and they're likely to have fewer skills

AT CUMMINS ENGINE, OLDER WORKERS ARE HOLDING ON TO THE BEST-PAYING JOBS—SO FUTURE GENERATIONS ARE SQUEEZED OUT

lation to fill the need," says Richard, another Hudson report author.

is a startling analysis—and somewhat controversial. Most experts con- that some boomers will work longer, they disagree widely on how much er as well as on the quality of the r force to follow. "I just don't think an count on boomers to retire lat- says John H. Bishop, a professor industrial labor relations at Cornell versity. Sheer fatigue, he and others e, will take its toll on older work- and some pension plans provide in- ves for early retirement. Sara Rix, nior policy adviser for the American ociation of Retired Persons, put it way: "People still want to retire, many want to retire early."

aybe so. But already, in Columbus, son's vision of the future is taking e. Cummins, for one, hasn't hired a nanent full-timer at its 2,800-em- ee plant since 1978, and within the e decade, all of its hourly workers be old enough—65—to retire. While agers of the \$5.2 billion company they would like to bring in younger, per workers, their hands are tied a 1993 11-year, no-layoff contract the Diesel Workers Union.

as the demographic crunch hurt ummins? Profits dropped 29% in 1996, 160 million, and as business grows her, execs worry about carrying a r force that increasingly lacks the



skills to compete. Some employees balk at learning to use statistics to assure quality control, and a few, managers say, simply bide their time before retirement. Those who demonstrate eagerness to adapt typically take longer to retrain, says James D. Kelly, vice-president for worldwide automotive operations.

Skilled or not, these older workers essentially are taking up jobs that otherwise would go to their own children. In Columbus, the trend has created a sort of two-tier community: Boomers keep the good jobs and the good pay. The younger generation increasingly accepts low-skill jobs with little prospect of having the income their parents did.

A generation ago, for example, 19-year-old Julie Smith easily could have walked from graduation at Columbus East High School to a well-paid job at Cummins, as her mother, Janet, did. Instead, she makes \$5 an hour from her part-time job at a local clothing store and lives with her parents, who paid the \$8,000 for her 1993 Ford Mustang.

Julie Smith is now studying at an Indiana University annex, hoping to escape the low-wage trap—a trap laid in part by her parents. Her mother, 56, retired from Cummins three years ago—but soon took a new job as a \$10.50-an-hour secretary at city hall. Gary Smith, 47, makes more than \$20 an hour at Cummins as a structural draftsman. Although eligible to retire in two years, he says he also will likely keep working.

FLIP SIDE. The longer they stay on the job, the longer Julie and her peers stay in lower-paying work. And when boomers finally do retire, Columbus could see its labor market swing the other way. Already, there are signs that, in sheer numbers, the boomers will be difficult to replace. Columbus has seen its high school graduating class drop 25%, to 580 students, in the past decade. "This community has a baby boom problem on one side of the ledger and a baby bust on the other," says Brooke Tuttle, president of the Columbus Economic Development Board. Anticipating the dislocation, Columbus has launched Project Recruit to lure new workers from nearby cities where factories have closed or downsized. But with only low-paid jobs to offer, the effort isn't working miracles.

The aging of the boomers isn't all bad. Their extended presence in the workforce could lift gross domestic product by \$500 billion by 2010, Hudson says, while adding to income tax revenues and reducing Social Security payouts. "Adding to the workforce boosts productivity, so it's a source of economic growth," says labor economist Audrey Friedman.

But the long-term drag on economic growth could be far stronger—and the solutions aren't simple. Hudson suggests reinforcing seniors' entitlements, thus making retirement more attractive. It also notes that higher economic growth would bring in more revenue for Social Security and Medicare. U.S. policy, though, is aimed squarely at cutting back both programs. Boomers likely won't win this generational battle in Washington—which will make them that much more entrenched at home.

By Ron Stodghill II in Columbus, Ind.

THE MOB ON WALL STREET: WHY YOU CAN'T SEE IT

An inside look at how organized crime hides its involvement in stock deals

Early in the morning of Jan. 7, 1997, a television camera crew was staked out near 215 Oxford Ave. in Saddle Brook, N.J., a quiet suburb about a half-hour's drive from New York City. But the man who lives at that address, Philip C. Abramo, did not emerge. A day earlier, he had left to stay overnight near his new home—the Fort Dix federal correctional facility in central New Jersey, where he was about to begin serving a one-year term for tax evasion. The well-timed departure was quintessential Abramo—whose almost perfect record at avoiding publicity has cemented his role as a leading reputed Mob figure on Wall Street.

For years, Abramo has managed to avoid official scrutiny while allegedly controlling at least four brokerage firms and exerting a wide-ranging influence over the huge market for “chop stocks”—Street lingo for easily manipu-

lated micro-cap stocks (BW—Dec. 16). Nothing has put Abramo on the regulatory radar screen—not his indictment in a consumer fraud scheme, not his guilty plea to tax evasion. Not even his rise to the rank of *capo* in the DeCavalcante crime family, according to a 1994 FBI court affidavit.

How do Abramo and other reputed Mob financiers and stock promoters keep their machinations from regulatory and public scrutiny? The answer to this question can be summed up in two words: offshore companies.

Usually, the offshore financial mechanisms used by the Mob are enmeshed in secrecy. But lately some answers have turned up—all surrounding the December, 1995, initial public offering of a small Phoenix-based company that makes multimedia components, SC&T International Inc. At the center of this tale are a half-dozen shadowy Bahamian entities and Sovereign Equity Management Corp., which brought SC&T public. Street sources say Sovereign is controlled by Abramo through a man named Philip Gurian, whose National Association of Securities Dealers registration was revoked in 1991.

Gurian was the key player in organizing the offshore financial conduits that handled the SC&T deal. Also playing a pivotal role is a prominent Bahamian, the son of the island nation's former Prime Minister, Lynden Pindling. Also allegedly involved in the SC&T deal is a man described by Street sources and investigators as a longtime associate of both Abramo and Gurian—Thomas F. Quinn, a disbarred lawyer and convicted securities swindler with a two-decades-long history of running investment scams worldwide.

With its unlikely cast of characters, the tale of SC&T and the Mob is a prime

example of how the Mob exploits companies and walks away unscathed, and almost inevitably, unexposed. In the process, investors in small-cap stocks are routinely ripped off. By the time the public buys the shares at the price the Mob has already cashed in on,

stock that it has obtained well in advance. For SC&T shareholders, the horror story not begin until last year, when the company earned the distinction of being one of the worst performing stock issues in

FIVE STEPS TO OFFSHORE RICHES

1 Phil Gurian, alleged associate of reputed mobster Philip Abramo, sets up Bahamian companies as financial conduits early in 1994. Resident agent is a prominent Bahamian lawyer, L. Obafemi Pindling.



PHILIP ABRAMO



PINDLING

NASDAQ small-market. But the few who profited from the deal—the SC&T story begins late in 1994.

Back then, the company looked promising.

The company was about to get some preliminary financing. SC&T's chief financial officer dashed off a routine letter to the underwriter—Sovereign—on Dec. 19, 1994. The letter was addressed to “Mr. Phil Gurian, Sovereign Equity Management.” But there was no Phil Gurian at Sovereign, at least not officially.

In fact, Gurian's role at Sovereign

DRAMATIS PERSONAE

PHILIP ABRAMO Alleged Mob *capo* now in jail for tax evasion. May have owned a Bahamian company involved in the IPO of SC&T.

JAMES COPLAND Former CEO of SC&T. Expressed concern about the sources of funding.

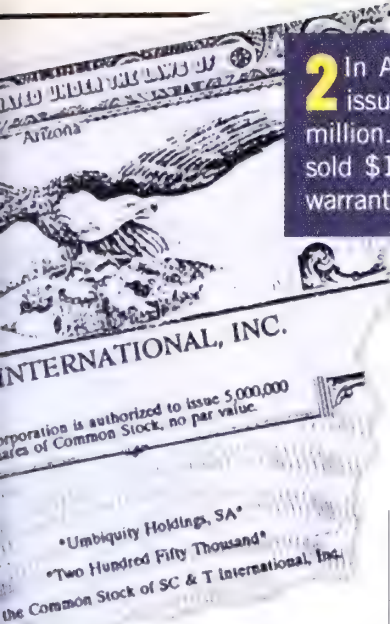
PHILIP GURIAN Barred broker who set up the SC&T IPO. Alleged associate of Abramo and Quinn.

L. OBAFEMI PINDLING Son of a former Bahamian Prime Minister. Agent for firms in SC&T deal.

THOMAS F. QUINN Convicted stock swindler and disbarred lawyer. Relatives were involved in SC&T financing.

GLEN VITTOR Former president of Sovereign Equity Management, underwriter of the SC&T IPO.

DATA BY THE WEEK



2 In April, 1995, SC&T International sells private-issue stock to the Bahamian outfits for \$1.5 million. In April and May, the companies also are sold \$1 million in SC&T notes, shares, and stock warrants in a deal arranged by Sovereign.

dealings with Quinn or Abramo.

Although only in his mid-thirties, Gurian has long been enmeshed in the world of "chop houses"—dealers in penny stocks such as Blinder, Robinson & Co., where he worked in the early 1980s.

In 1991, Gurian's registration was revoked by the National Association of Securities Dealers for nonpayment of fines imposed in disciplinary proceedings. But apparently, it didn't spark a career change for Gurian. In early 1994, the NASD brought charges accusing Gurian of working as a trader at Falcon without being registered and said he and Falcon had failed to honor trades from other brokerages. The NASD permanently barred him from the securities business. Gurian appealed, but the action was upheld in March, 1995.

But even though he was twice ordered to stay clear of the brokerage business, Gurian had a major role in the SC&T financing. That is clear from internal records produced under subpoena by SC&T in court proceedings brought against Sovereign, Falcon, and other firms by Edwin B. Mishkin, court-appointed trustee for the bankruptcy of Adler, Coleman Clearing Corp. Adler collapsed after the demise of the penny-stock firm Hanover, Sterling & Co., and Mishkin has filed suits accusing short-sellers, including Sovereign, Falcon, and Gurian, of causing Hanover's demise. The two firms and Gurian are fighting the suits.

Gurian, a barred broker, denies any role at Sovereign, but mail for him goes to its address

and the SC&T deal was crucial. Sources who are well acquainted with Gurian say that for as long as he has been the New York-based Abramo's key confederate at Sovereign's Raton (Fla.) headquarters and performs a similar function at its sister company, Falcon Trading Group Inc. In words of one former SEC organized crime investigator, the two men are closely linked—the "two Phils," as he calls them: Gurian and Abramo. Both men also are alleged by investigators and sources to work closely with Quinn, whom they are described as a master at organizing stock deals and high-pressure "boiler room" operations that sell stock to the public. One investigator, who has examined phone records of both Quinn and Gurian subpoenaed in an SEC lawsuit against Quinn, notes that there are many phone calls between Gurian and Quinn—and between Abramo and Quinn—in 1995, while SC&T financing was in progress. There were also calls from Quinn to Gurian.

Q. TALK? Gurian denies having any role at Sovereign or Falcon, but says that he is often at Sovereign because of his close friendship with its former president, Glen T. Vittor. In December, 1994, letter was sent to him at Sovereign, Gurian says, because of his frequent visits to the firm. (Gurian denies that Abramo, Quinn, and Gurian have any role at the firms. Gurian readily admits that he had frequent phone contact with Quinn in 1995, but says that he discussed a variety of innocuous things. "We talked about business," says Gurian. He says that he never met Abramo, but only as a "stock promoter." Gurian denies any business

The internal SC&T records subpoenaed by Mishkin in the suits include letters written by SC&T's then chief executive, James L. Copland, and addressed to "Phil and Glen"—Sovereign former President Vittor and the barred broker,

Gurian. Copland, who remains chairman but has since stepped down as SC&T's CEO, did not return phone calls. SC&T's new CEO, Thomas Bednarik, declined comment. SC&T's attorney, Sara R. Ziskin, said that company officials would not be interviewed for this article. In a previous interview, Copland acknowledged Gurian's key role in the financing but denied any knowledge of an organized crime role.

ANGRY LETTER. Gurian acknowledges that he worked on the financing—but insists that he did all that work out of friendship for Vittor. "I didn't get paid a penny for that deal," he says. But Hands insists that Gurian is mistaken, and that he had no role in the IPO, paid or unpaid.

The Gurian-Vittor-SC&T correspondence was sometimes acrimonious. At one point, Copland expressed irritation at being put off when he asked where the money for the company was coming from. "Yes, I do care fellows, who is funding it all, and right now I have no idea!" said an exasperated Copland in a letter to "Glen and Phil" on May 15, 1995.

By the time Copland wrote that letter, SC&T already had gone through its first wave of interim financing. In April and May, Gurian and Vittor raised \$2.5 million for SC&T by selling notes, warrants, and stock, mainly to six Bahamian investors: Maraval & Associates,

Bauman Ltd., Caspian Consulting, Robert Adams, Roddy DiPrimo Ltd., and Ubiquity Holdings. In the IPO, the Bahamians cashed out for \$5 apiece the 1.6 million shares they acquired at \$1.33 a share—a gain of \$5.8 million.

Copland would have gotten little information on the people funding his company—the Bahamians—from his own prospectus. The "beneficial owners" of the companies, listed in the prospectus, appeared to have no apparent links to either SC&T or Sovereign, which brought the company public. Who put the money into those Bahamian en-

3 Gurian is alleged to be a hidden control person of Sovereign Equity Management, SC&T's underwriter. Sovereign denies he has any role in the firm.

SC&T²
International Inc.

December 19, 1994

VIA FACSIMILE

Mr. Phil Gurian
Sovereign Equity Management
5200 Town Center Road, Suite 309
Boca Raton, Florida 33486

Re: Private Placement Funds

ties? Gurian won't say. But there is one solid clue to the people who were getting in on the ground floor of the SC&T deal.

Not long after the Bahamians were snapping up cheap shares, some two dozen individuals participated in the company's smallest round of financing. Some \$875,000 in notes and SC&T stock were sold in a Sovereign-managed deal in August and September, 1995. The names were listed in the footnote to an SC&T filing with the SEC in November, 1995. Three of the 24 names have a familiar ring to them—Abramo and Quinn. Among the buyers of the private-issue shares and notes, duly redeemed in December, 1995, were Romilda Abramo—the wife of Phil Abramo—Frank Quinn and Laura Quinn. According to an investigator who has long tracked Thomas Quinn, Frank Quinn is the father, and Laura Quinn the aunt, of Thomas Quinn.

Quinn is the subject of a \$25 million civil judgment arising from SEC proceedings involving stock deals in the 1980s, and investigators for the SEC are exploring the possibility that Frank and Laura Quinn have been used as thinly concealed fronts for Thomas Quinn. Quinn's attorney declined comment. Likewise, Romilda Abramo might easily have been a proxy for her husband. Indeed, their house in Saddle Brook is in her name as well. Efforts to reach Frank and Laura Quinn and Romilda Abramo were unsuccessful.

The presence of the Quinn and Abramo kinfolk is among the most compelling evidence of links between the two men—and their links to the SC&T deal. Another link between Quinn and the Bahamian companies appears in the phone records subpoenaed by the SEC in its legal tussles with Quinn. A source says they show calls from Quinn to a Bahamian company called Pindling & Co. during 1995.

Pindling is a crucial name in this saga. L. Obafemi Pindling is a registered agent for Ubiquity and the other Bahamian firms involved in the SC&T deal. ("Umbiquity" is the name that ap-

4 SC&T goes public in December, 1995, and the Bahamian companies—which were among the selling shareholders—cash out at a handsome profit.



SC&T'S PHOENIX HEADQUARTERS

pears in SEC filings but is apparently a misspelling.) Pindling is the son of Lynden Pindling, who was for many years Prime Minister of the Bahamas. How did such a prominent Bahamian get involved in setting up the Bahamian firms? Obafemi Pindling did not respond to phone calls and faxes to his office in Nassau.

PRIME MOVER. Pindling handled the paperwork involved in organizing the Bahamian companies. But by all accounts, he had no role in running them. Who did? Quinn may have had a role, as the phone records imply. But the man who had the leading role in operating those companies was none other than the ubiquitous Philip Gurian. Abramo's alleged associate was not only the prime mover behind the SC&T financing but also was instrumental in the operation of the offshore entities, which were set up in early 1994 and did more than just buy SC&T stock. Mishkin recently sued Ubiquity,

Maraval, Caspian, and Iman, claiming they received proceeds from improper short-selling of Hance stocks. Gurian dismisses the suit as "bull." A similar suit against DiPrimo recently resulted in a \$150 million default judgment, which DiPrimo is appealing.

Gurian's involvement in the Bahamian companies would ordinarily never have

come to light. Not a word was said about him in the SC&T prospectus or the papers filed with the SEC by the offshore entities in connection with the offering. But there was an unforeseen development. Several months after the SC&T offering, some \$1.7 million allegedly disappeared from Ubiquity's accounts held at a Canadian brokerage. In a suit filed against the brokerage and others by Ubiquity, the firm notes that the person who "provided all trading instructions" for the firm was none other than Phil Gurian. Gurian describes himself as merely an "adviser" to the Bahamian accounts. But he acknowledges that he directed the trading for Ubiquity and other Bahamians involved in the SC&T deal.

The case of the missing \$1.7 million

5 Money from the Bahamian companies flows back into the U.S. Also cashing in are holders of SC&T debentures sold by Sovereign. They include the wife of Phil Abramo and two relatives of convicted stock swindler Thomas Quinn.



SC&T checks payable to relatives of Abramo and Quinn point to their involvement

a saga within a saga. Ubiquity claims in the suit that the money was stolen by a Canadian broker and a convicted penny-stock manipulator, Eric Wynn, whose "coffee" meetings with President Clinton have lately gained notoriety. Efforts to obtain an interview with Wynn, who recently began serving a prison sentence for securities fraud, were unsuccessful. In a statement to BUSINESS WEEK, he denied involvement in any transaction and claims the theft never took place. Wynn says

that Gurian falsely claimed that the money was stolen. He maintains that Gurian hatched a scheme to defraud the Canadian broker and its insurance company by falsely claiming the loss and then unsuccessfully sought to involve Wynn in the scheme. Gurian vigorously denied Wynn's allegations.

The Royal Canadian Mounted Police investigated the reported disappearance of the money—and came up with an intriguing tidbit about Ubiquity's ownership. According to a

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The Way It Should Be.

mary of the RCMP investigation, a copy of which was obtained by BUSINESS WEEK, an ominous incident took place after the money was found missing. A Canadian broker, accused in the suit of joining with Wynn in stealing the money, was visited in a Manhattan hotel room in mid-1996 by Gurian and what the report describes as "three males." An RCMP investigator, who requested anonymity, says the three were described to the RCMP as "hoodlums."

Gurian says he brought along three "friends" to intimidate the broker, but denies they were "hoodlums." He also denies reports, from sources familiar with the incident, that one of the three

A shadowy figure known only as "Lou" tends to the jailed Abramo's affairs

was an angry Abramo, who allegedly claimed the stolen money was his. Abramo's lawyer, Harvey Weissbard, declined comment.

BIG LOSERS. Whoever owned the money, it would seem Ubiquity and the other Bahamian entities were linked. A Dec. 20, 1995, letter from Sovereign's Hands instructs SC&T to make payments for all the Bahamian entities to a bank account in New York City—for the benefit of a single account at Pindling & Co. If Ubiquity was the victim of a heist, it was not the only party to the SC&T saga to have lost big. SC&T shareholders saw their shares, which went public at \$5, climb to \$8 in June before plummeting to pennies by yearend. Sovereign ceased supporting the stock.

For his part, Abramo, though incarcerated, has ensured that he remains current on activities in his old stomping grounds—Wall Street. And it is no surprise that the man who sources say is filling in for Abramo on the Street has also made a fetish of secrecy. He is an Abramo confidant who goes by the name of "Lou"—a man who is so averse to publicity that only his closest confederates know his last name. Lou has been seen in New York City, Long Island, and Florida, watching out for the interests of his imprisoned associate. But if he decides someday to expand his vistas to the Bahamas, he will find the welcome warm and the wall of silence as comfortably high as ever.

By Gary Weiss in New York

COMMENTARY

By Geoffrey Smith

WHY DIDN'T ANYONE SMELL A RAT AT CENTENNIAL?

Centennial Technologies Inc., once a high-tech dynamo in Billerica, Mass., was last year's biggest gainer on the New York Stock Exchange, up 450%. But this year, Centennial slumped from 55¢ on Dec. 30 to 2¢ in mid-March.

Not surprisingly, serious fraud is suspected. According to court documents, CEO Emanuel Pinez used a form of trickery rarely seen: He hyped sales by using his ample personal fortune to fund purchases. "Any auditor would have a hard time catching that," says William H. Coyne, an accounting professor at Babson College.

Pinez founded Setag Inc.—which later became Centennial—in 1987 to develop PC cards for portable computers and laser printers. Sales jumped from \$12 million in 1995 to \$38 million 1996, with profits rising briskly as well.

But there were many red flags that should have been spotted, because Pinez had a very checkered past. The Israeli-born executive acknowledged in court last month that he had a criminal conviction on copyright violations in Switzerland—but said the conviction had been expunged from his record. According to several accounts, he was also fired from a job for creating false sales records at a unit of Singer Co., and he lied about his schooling on his résumé and in Securities & Exchange Commission filings.

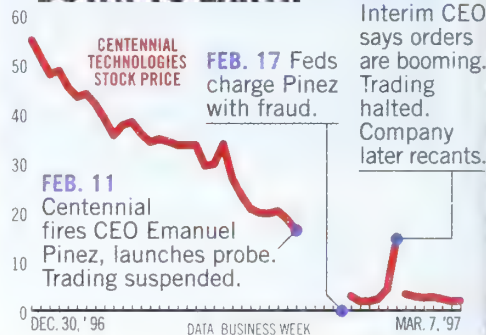
INNOCENT. Pinez' alleged accounting shenanigans may go back as far as 1994 and may involve deceptions well beyond fictitious sales receipts, according to court documents. Centennial Director John J. Shields, a former CEO of Computervision Corp., says in an affidavit that Pinez admitted to him that he altered inventory tags and recorded sales on products that were never shipped. Pinez' lawyer says Pinez is innocent.

Coopers & Lybrand, Centennial's

auditor, claims that "the fraudulent accounting practices were apparently carried out by the company's former top management to deceive its board investors, lenders, creditors—and Coopers & Lybrand." That's an awfully long list, and no one should be more red-faced than William J. Shea, chief financial officer of BankBoston, who served on Centennial's board and whose bank was the company's primary lender. Shea declined comment. Donald Peck, the company's chief counsel, says the board took quick action when questions arose.

The new CEO hired to rescue the

DOWN TO EARTH



company, Lawrence J. Ramaekers, added a baroque twist to the tragedy on Feb. 25, when he told a reporter that the company's sales were going well. The news sent Centennial's stock skyrocketing—from 4¢ to 14¢. The New York Stock Exchange halted trading after the company said it would issue a clarification—in which it played down his remarks. The stock reopened on Feb. 27 at 3¢. It was later delisted.

On Mar. 12, Pinez, 58, was indicted on five counts of securities fraud. How he managed to deceive so many for so long remains murky. What is clear is Shea isn't the only one who deserves to be embarrassed. A small crowd of seemingly sophisticated folks who were supposed to look out for shareholders' interests just blew it.

Smith covers finance from Boston



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BANKING

OUT OF THE S&L ASHES

Superthrifts are emerging to challenge full-service banks

Until February, Great Western Financial Corp. was a lumbering savings and loan best known for its TV ads with John Wayne waving a branding iron and with Dennis Weaver on horseback. These days, the giant Los Angeles thrift is the takeover prize in a real-life showdown between two S&L heavyweights: Seattle's Washington Mutual Inc. and H. F. Ahmanson & Co in Irwindale, Calif.

The acrimonious battle is emblematic of the high-stakes dealmaking in S&Ls, which has attracted such investors as Robert M. Bass and Ronald O. Perleman. The thrift industry itself, ever since the 1980s crisis, has been in rapid decline. But a small band of "superthrifts" is emerging that could escape that fate. They are busily acquiring other thrifts and community banks in order to go head-to-head with commercial banks. Once-obscurer players now on the move, besides Seattle's Washington Mutual, include Charter One Financial in Cleveland, TCF Financial in Minneapolis, and Peoples Heritage in Portland, Me. "These thrifts are already competing successfully with first-tier regional banks," says Caren E. Mayer of Montgomery Securities.

NO PANACEA. With sellers outnumbering buyers, some superthrifts have easily picked up their brethren. By chopping costs of newly acquired prey, they have been able to squeeze higher profits out of mortgage operations—even those with the scrawniest margins. Says Charles John "Bud" Koch, the 6-ft., 6-in. chairman and CEO of Charter One: "There has been a once-in-a-career opportunity for a lot of us to make a huge amount of money by consolidating weaker players."

Acquisitions alone are no panacea. Superthrifts also have moved to cut their funding costs and increase what they earn on that money by moving beyond thrifts' traditional territory of mortgages. Customers at a Charter One branch most likely would not know they were in a thrift. They can easily get a home-equity, car, or boat loan—along with life insurance or mutual funds.



KOCH: An "opportunity...to make a huge amount"

HIGH-STAKES DEALMAKING

H.F. AHMANSON Winning Great Western would create a \$93 billion giant. The fourth-quarter return on equity was 15%. Assets: \$50 billion.

WASHINGTON MUTUAL Already a powerhouse with an 18% return on equity. A merger with Great Western would create an \$87 billion behemoth. Assets: \$45 billion.

CHARTER ONE Rapidly expanding across the Midwest. Its return on equity was 18%. Assets: \$14 billion.

TCF A leader in becoming more banklike. Return on equity is 20%. Targets the underserved lower middle class. Assets: \$7 billion.

PEOPLES HERITAGE Bank acquisitions have revitalized this former basket-case thrift. Return on equity is 17%. Assets: \$5 billion.

DATA: BUSINESS WEEK, KEEFE, BRUYETTE & WOODS INC

William A. Cooper, chairman and CEO of TCF Financial Corp., has created one of the nation's most banklike and most profitable thrifts by targeting the underserved lower middle class. Only 45% of TCF's assets are in mortgages. More important, 53% of its deposits are in low-cost checking, savings, and money-market accounts. If they have only "\$500 in a checking account, customers don't care what I pay them [in interest]," says Cooper.

To gain ammunition in their fight to become banks, many superthrifts have hired away top-flight managers who were victims of the bank merger wave.

Ahmanson, for one, picked up First Interstate's w regarded vice chairman Bruce G. Willison—also with 61 branches from First Interstate Bancorp after it merged with Wells Fargo & Co.

EROSION. Most barriers that once gave thrifts a competitive edge have been eroded. The emergence of Fannie Mae and Freddie Mac, which pool mortgages to sell them on second-hand markets, has eroded profits from the thrifts' once-exclusive niche of mortgage lending. And thrifts have watched their traditional source of funding, certificates of deposit, dry up as consumers have turned en masse to mutual funds. In recognition of this, Congress has lowered the insurance that thrifts pay on deposits—to be more in line with what banks pay. And by 1999, banks and thrifts should have the same charters, eliminating the legal difference between the two entities.

Superthrifts face many other challenges. They are diversifying into an overcrowded bank market. And as the size and price of their acquisitions grows, so does the risk that deals will not be executed. For Washington Mutual, Ahmanson, winning Great Western should be a cakewalk. But both could stumble. Ahmanson would have to make a sweeping cultural change—it lags in offering bank products—while integrating a giant hostile acquisition.

To make money on the deal, Washington Mutual would have to achieve considerable cost savings and boost revenue. "I think a lot [of thrifts] will end up being bought by banks," says James B. Schmidt, executive vice-president of John Hancock Funds Inc.

Charles R. Rinehart, the 50-year-old CEO of Ahmanson, puts the challenge facing thrifts eager to become more like banks in blunt words that John Wayne and Dennis Weaver would appreciate: "It's change or die."

By Kathleen Morris in Los Angeles with Alison Rea in New York

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BY GENE G. MARCIAL

GOLD IN GOLDEN WEST?

On the Coast, high tech and biotech aren't the only lively issues. Another hot bunch: savings and loans. Several money managers are betting that another big thrift will soon follow the path taken by Great Western Financial, which has agreed to be bought by

Washington Mutual—thus dodging a hostile Feb. 18 bid from H. F. Ahmanson, the nation's largest S&L (page 192).

These pros are convinced that the next target will be Golden West Financial (GDW), the nation's third-largest S&L. One money manager who is buying says that one likely suitor will

be the spurned Ahmanson.

This money pro says Golden West, now at 71½, will also attract other suitors. He figures Golden West shares are worth 113 to 125 in a takeover—based on 2.7 to 3 times their book value of \$42. The Great Western offer was based on the same formula, he notes.

Out-of-state banks are also known to be interested in a slice of California business. NationsBank CEO Hugh McColl says he's eager to move in. The thrifts holding the biggest shares of the state's bank deposits are Ahmanson, with 7%; Great Western, 5%; and Golden West, nearly 3%. In this period of buyouts, "our top pick is Golden West," says analyst Paul Huberman of Standard & Poor's. He says it has excellent asset quality, good loan-origination capability, and affluent depositors. Golden West is concentrated in California, but it has a presence in Arizona, Florida, New Jersey, and Texas.

Analysts consider Golden West the Rolls-Royce of S&LS. Smith Barney analyst Thomas O'Donnell notes that it has the "best track record among major S&LS." Unlike many other thrifts, he says, Golden West—mainly because of its marketing skill—is generating solid earnings and asset growth. Cost cut-

ting, he adds, is a priority at Golden West, which is run by the wife-and-husband team of Marion and Herbert Sandler, jointly co-chairmen and co-CEOs. They control 19.8% of the stock.

O'Donnell expects Golden West to earn \$5.90 a share this year and \$6.50 next year, up from last year's \$5.32.

MAKING ANGEION'S HEART SING

Angeion (ANGN), which is developing implantable cardioverter defibrillators for the treatment of arrhythmia, or irregular heartbeat, has yet to recover from a heart-stopping blow: In October, St. Jude Medical, the No. 1 maker of mechanical heart valves, announced it was acquiring Ventritex, another maker of defibrillators, thus undoing its deal to distribute Angeion's defibrillators, still awaiting Food & Drug Administration approval. Angeion threatened court action, prompting St. Jude to seek a friendly resolution. But Angeion's shares plunged from 6½ on Oct. 21 to 4½ on Oct. 24.

Even so, James Awad, who runs New York investment firm Awad Associates, has upped his buying—doubling his stake to more than 2 million shares. He thinks St. Jude, whose purchase of Ventritex was blocked by the Federal Trade Commission until it settled with Angeion, will finally resolve the dispute.

Awad expects the settlement will include handing over to Angeion a "significant amount of money" and a possible cross-licensing pact on the two companies' devices. Awad says a deal

should boost the stock—by clearing the way for Angeion to seek another partner.

Awad also says Angeion will be able to respond to overtures from other quarters. In a buyout, he figures Angeion is worth 8 to 10 a share. Chairman Whitney McFarlin, who expects a settlement in a few weeks, says: "We're in active discussions with potential strategic partners."



AWAD: Settling old issues gives new partners a chance

ALZA: PEPPED UP OVER PROTEINS

For more than a year, Alza (AZA) has been a favorite rumor stock. Takeover players have bet heavily on the likes of Pfizer were angling to swallow Alza, a leader in controlled-release drug delivery. Rumors lifted the stock 34 in March, 1996. But when the whippersnappers came to naught, the shares nosedived—to 24 by mid-July. But guess what? The stock is back to around 30 this time with no buyout scuttlebutt. What's sparking Alza's recovery?

Alza is about to sign a pact with one of Alza's systems for an important protein, according to several investors attending a health-care conference in San Francisco. Alza has the capacity to deliver proteins used in treating infectious diseases and cancer, says one California money manager.

When Alza's new pact is announced, "investor perception of Alza will improve dramatically," he says. Alza's ability to deliver biotech proteins in a more convenient and efficient manner, he adds, doesn't have the recognition it deserves on the Street.

Health-care analyst David Saks of the New York investment bank Gruntal says Alza is "undervalued in the hot biotech and drug group" and should be "selling at a much higher valuation, given the company's leadership in drug delivery." One of these, he explains, is its E-Trans system for administering proteins and peptides, including insulin. And Alza's "skin interface" technology can propel molecules through the skin with the help of a small jolt of electrical energy. The new Alza message, says Saks, is that the company is on the cutting edge of drug-delivery technology to transmit complex medicines in a more convenient, and more effective manner. He sees Alza earning \$1.30 this year and \$1.60 next, vs. \$1.08 in 1995. His target for the stock: 45 in a year and 55 in two.

MAYBE MORE ZIP ON THE STREET



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THE PLAYERS

CHAMPIONSHIP

THE PLAYERS Championship turns 24 the week of March 24-30, and the strongest field in golf will join in the birthday celebration at the Tournament Players Club at Sawgrass.

In addition, to winning one of the most prestigious titles in golf, the champion walks away with a check for \$630,000 – the largest first prize on the PGA TOUR – after his week in Ponte Vedra Beach, FL.

"THE PLAYERS Championship has evolved into one of the world's great tournaments," PGA TOUR Commissioner Tim Finchem said of the TOUR's showcase event. "THE PLAYERS annually draws the strongest field in golf to one of the game's sternest tests, the TPC at Sawgrass. We have been crowning deserving champions for 23 years and fully expect to do so again on the Stadium Course the afternoon of March 30th.

"I take great pride in what the TOUR has accomplished with THE PLAYERS Championship," Finchem added.

From its first playing in 1974, when Jack Nicklaus won by two strokes over J.C. Snead at Atlanta Country Club, THE PLAYERS Championship has built momentum, gained recognition and earned acceptance as one of golf's finest competitions.

The early years were traveling days. From Atlanta, THE PLAYERS Championship moved in 1975 to Colonial Country Club in Fort Worth, TX, where Al Geiberger defeated Dave Stockton by three strokes. Then, in 1976, the site was new – Inverrary G&CC in Lauderhill, FL – but the champion was familiar, as Nicklaus became THE PLAYERS' first repeat winner. Jack posted a three-stroke victory.

It wasn't until last year, when Fred Couples earned his second

title by four strokes over Colin Montgomerie and Tommy Tolles, that THE PLAYERS Championship had its second two-time winner.

From 1977 to 1981, THE PLAYERS Championship put down roots in the neighborhood it still occupies — at Sawgrass Country Club in Ponte Vedra Beach, a resort community southeast of Jacksonville. There the winners' names were (Mark) Hayes, Nicklaus again, (Lanny) Wadkins, (Lee) Trevino and (Raymond) Floyd.

And the tournament continued to evolve. In 1982, the event moved to its permanent site at the first Tournament Players Club – the TPC at Sawgrass.

Former Commissioner Deane Beman is credited with many of the ideas for THE PLAYERS Championship, including the course it now calls home. Beman envisioned a facility, owned and operated by the TOUR and its members, where fans would enjoy full access and unobstructed views at the tournament.

"I felt the TOUR needed a permanent site and roots somewhere," said Beman. "Secondly, I felt the way to build THE PLAYERS Championship into the TOUR's most important tournament was to own and control our own course and build a facility that was better than what anyone else had. I also felt the TOUR had benefited so much from everybody else's innovations, and here was a chance for the TOUR to be innovative."

The TPC at Sawgrass truly was innovative. Designed by renowned golf course architect Pete Dye, the 415-acre, par-72 facility opened in 1980 but was unveiled to the world at



THE PLAYERS Championship Television Schedule

Thursday, March 27
First Round of Competition, ESPN
10:00 a.m.-1:00 p.m. EST
3:00-6:00 p.m. EST

Friday, March 28
Second Round of Competition, ESPN
10:00 a.m.-1:00 p.m. EST
3:00-6:00 p.m. EST

Saturday, March 29
Third Round of Competition, NBC
2:00-6:00 p.m. EST

Sunday, March 30
Final Round of Competition, NBC
3:00-6:30 p.m. EST

the 1982 PLAYERS Championship. It had an immediate impact on the game – and golf course architecture.

The Tournament Players Club concept has continued to grow to the extent that there now are 12 operational facilities around the world and five more under construction. TPCs also can be found in Japan, Thailand and China. The spectator-friendly Stadium Course at the TPC at Sawgrass recently underwent changes designed to make it even more accommodating. Fans will find new spectator mounds behind the ninth, 6th and 18th greens, as well as a larger mound behind No. 17. That, of course, is the facility's island green signature hole that has drawn so much attention – from professionals and amateurs alike.

One who certainly has high praise for the TPC at Sawgrass is Couples, who won there for the first time in 1984. With Tom Watson, Seve Ballesteros and Trevino in hot pursuit, the 24-year-old held on for a one-stroke win over Trevino, the second of his young PGA TOUR career, worth \$144,000.

Couples' second victory last year, crafted largely through a final-round 4, the lowest closing 18 in tournament history, made him the first repeat winner at the TPC. Couples' under-par round featured an eagle from off the green at No. 16.

"I think it is a tough tournament. It's got a terrific field," Couples said after last year's win. "When I won the first time) I was certainly not a great player, but I think it has helped me go on to be a good player. A 10-year exemption certainly helps."

Hometown favorite Mark McCumber, the 1988 champion who learned to play golf on Jacksonville's public courses, feels THE PLAYERS Championship has all the ingredients needed to gain recognition as a major championship.

"I think it is the only tournament that has any validity to be mentioned along with the traditional four majors for two reasons: strength of field and the difficulty of the golf course. It has that," McCumber said.

"If you win this tournament, you've beaten the very best under the spotlight under very demanding

conditions. To me, those meet the criteria of a major championship," added the 10-time TOUR winner, who notes that the current majors weren't "majors" when they began, either.

"It's matured as a tournament," said Tom Kite, the 1989 champion who won the 1992 U.S. Open. "This tournament needs to be the one tournament you want to win, inclusive of the majors."

This year's tournament marks the first PLAYERS appearance by one of the TOUR's most-talked-about young players, Tiger Woods. It won't, however, be Woods' first visit to the TPC at Sawgrass. For that's where the 21-year-old began his unprecedented run of three consecutive U.S. Amateur victories in 1994.

As Tiger Woods is very much a part of the PGA TOUR's future, the World Golf Village will tie that future to golf's past when it opens in the spring of 1998. The

centerpiece of the World Golf Village is the World Golf Hall of Fame, both of which figure prominently in the upcoming PLAYERS Championship week.

And, as is standard with all PGA TOUR events, the players aren't the only winners at THE PLAYERS Championship, which annually benefits Northeast Florida charities.

The 1996 event raised \$524,400 for charity, lifting THE PLAYERS Championship's overall contribution to more than \$7.3 million since the first donation was made in 1977.

And speaking of donations, 1996 truly was a milestone year in terms of PGA TOUR charitable contributions. TOUR events combined for a record \$29.7 million, raising the overall total past the \$300 million plateau – to more than \$305 million given to worthy local causes since the initial donation was made by a PGA TOUR tournament in 1938.

THE PLAYERS Championship Results

Atlanta CC, Atlanta, GA

1974	Jack Nicklaus	Two strokes over J.C. Snead
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Colonial CC, Fort Worth, TX

1975	Al Geiberger	Three strokes over Dave Stockton
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Inverrary G&CC, Lauderhill, FL

1976	Jack Nicklaus (2)	Three strokes over J.C. Snead
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Sawgrass CC, Ponte Vedra Beach, FL

1977	Mark Hayes	Two strokes over Mike McCullough
1978	Jack Nicklaus (3)	One stroke over Lou Graham
1979	Lanny Wadkins	Five strokes over Tom Watson
1980	Lee Trevino	One stroke over Ben Crenshaw
1981	Raymond Floyd	Won playoff over Barry Jaeckel and Curtis Strange

TPC at Sawgrass, Ponte Vedra Beach, FL

1982	Jerry Pate	Two strokes over Brad Bryant and Scott Simpson
1983	Hal Sutton	One stroke over Bob Eastwood
1984	Fred Couples	One stroke over Lee Trevino
1985	Calvin Peete	Three strokes over D.A. Weirbring
1986	John Mahaffey	One stroke over Larry Mize
1987	Sandy Lyle	Won playoff over Jeff Sluman
1988	Mark McCumber	Four strokes over Mike Reid
1989	Tom Kite	One stroke over Chip Beck
1990	Jodie Mudd	One stroke over Mark Calcavecchia
1991	Steve Elkington	One stroke over Fuzzy Zoeller
1992	Davis Love III	Four strokes over Ian Baker-Finch, Phil Blackmar, Nick Faldo and Tom Watson
1993	Nick Price	Five strokes over Bernhard Langer
1994	Greg Norman	Four strokes over Fuzzy Zoeller
1995	Lee Janzen	One stroke over Bernhard Langer
1996	Fred Couples (2)	Four strokes over Colin Montgomerie and Tommy Tolles

March 6, 1997

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WHEAT FIRST BUTCHER SINGER

EDITED BY OTIS PORT

THIS WATCH WATCHES YOUR Zs

SLEEP RESEARCHERS AT Washington's Walter Reed Army Medical Center think that they've found a way to save lives outside the hospital: a fat wristwatch to help truckers and railroad engineers manage fatigue, a leading cause of accidents. The Federal Aviation Administration may require commercial pilots to wear the gadget full-time.

The so-called actigraph, or Sleep Watch, was developed by Precision Control Design Inc. (PCD) in Fort

Walton Beach, Fla. Inside, a motion detector and a microprocessor continuously monitor wrist movements—which are distinctly different when a person is asleep. This way, the system can tabulate sleep patterns and tell wearers whether they are alert enough to fly a plane or drive a truck.

Only eight Sleep Watches currently exist. They cost \$1,800, so they are used primarily by sleep researchers. "But put this on a chip, mass-produce it, and every-



one can afford it," says Dr. Gregory Belenky, head of sleep research at Walter Reed. PCD plans to do just that, perhaps by yearend.

Christina Del Valle

DOUBLE IN THE MAIN? CALL BO-ROOTER

PIPE CLOGS OR LEAKS IN narrow pipe often involves slow and expensive process disassembly. It can also be dangerous when the piping is part of a chemical or nuclear power plant. Now, Toshiba Corp. has developed a miniature robot that can crawl into, inspect, and extract debris from pipes as narrow as one inch in diameter.

The 4.3-inch-long robot resembles a centipede, but its head has a tiny charge-cou-

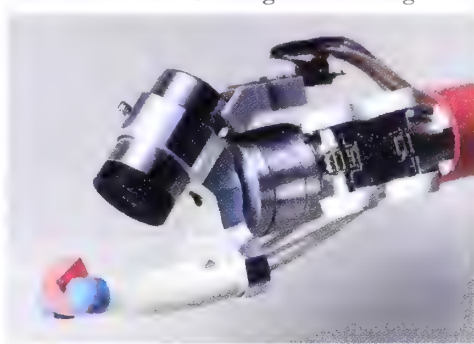
pled device, or CCD, camera, not antennas. Below the camera is a remotely controlled gripper for snatching foreign objects.

There's just one hitch: As the robot crawls along on

tiny wheels, at about two inches per second, its trailing power and communications cable creates friction that quickly overpowers the robot's minimotors. So eliminating this long tail is the next target.

The improved robot will be battery-powered and will have wireless communications equipment. Toshiba expects it to be ready in two or three years.

Steve Brull



INNOVATIONS

Most deaf people might eventually hear normally again, if a technique being developed at New York's Albert Einstein College of Medicine proves as effective in people as the work now going on with guinea pigs. The treatment involves gene therapy that can repair and even grow the inner ear's hair cells. Damage to these delicate hairs—due to age, infection, or prolonged exposure to loud noise—means permanent hearing impairment.

But a genetically modified virus has been tricked into producing the growth factor that regenerates inner-ear hairs in animal subjects. Human trials might begin as soon as late next year.

■ For some future Valentine's Day, you may be able to send a bouquet of roses that won't wilt—ever. Peter J. Ocello, director of preservation at Michigan State University's College of Veterinary Medicine, has developed a way to use silicone to preserve flowers, fruits, meats, and other organic objects. "Sushi looks

so realistic it's scary," he says. Sushi bars, which often display waxy, obviously fake models of menu items, are prime customer candidates, Ocello adds. The new process begins with freeze-drying to kill the bacteria that cause spoilage. This leaves the specimen extremely fragile, with colors a bit drab. However, by filling the molecular spaces once occupied by water with a patented silicone polymer, normal flexibility and appearance are restored. For flowers and foods, Ocello is now working on including scents.

HOW TO TEST A BRIDGE'S METTLE

DRIVERS RARELY WORRY about it, but bridges—like all steel structures under stress—weaken as they age. Bridges must be inspected every two years. But in most cases, this is nothing more than a visual check.

For a more accurate reading on structural strength, engineers must blast away surface paint on a girder, solder wires in place, and run an electric current through the wire. Changes in the current are then measured as trucks or cars cross the bridge, and the results are crunched in a computer. It's a time-consuming process, rarely used for routine inspections.

SonicForce LLC in Burlingame, Calif., says it has a much simpler method: acoustic strain gauging. It uses audio transmitters and sensors packed in a box the size of a small briefcase. The box is attached magnetically to a girder. Linked to a laptop, the system measures the time it takes an ultrasonic signal to travel a specific distance, then compares that with the speed of sound in healthy steel. Differences indicate the accumulated metal strain.

"It's a big advantage in time, money, and convenience," says Abba G. Lichtenstein, an independent engineer and consultant who has monitored tests by SonicForce. The system costs \$6,000 for the first unit, not including the laptop, and \$5,000 for each subsequent purchase.

Neil Gross

THE INTERNET

HELLO, COUCH POTATOES

Can Steve Perlman sell WebTV to the masses?



Kevin Harrington wanted to get on the Internet, but he didn't much like computers—or their price tag. So after seeing ads and news stories about a \$350 device from WebTV Networks Inc. for surfing the Internet via the TV, the maintenance foreman at a Akron (N.Y.) recreational-vehicle lot bought one last December. Now, he cruises the Web for news and sends E-mail to friends at least two hours a night. "If you're not into computers," says the 29-year-old, "it's unbelievably easy."

Or, even if you are into computers: Microsoft Corp. Chairman William H. Gates III has bought several WebTV devices for his friends. Apple Computer Inc. co-founder Stephen Wozniak has snapped up a dozen. And since the boxes went on sale in October, consumers have bought more than 50,000—a decent start, considering that 35,000 audio CD players were sold in their first year. Says Wozniak, whose relatives use WebTV—not an Apple Macintosh—because it's a

breeze to learn: "Find me a computer that is so human-understanding."

Indeed, the notion of making a ride on the Internet as effortless as pushing a remote-control button has made WebTV one of Silicon Valley's hottest prospects. Since its June, 1995, founding, WebTV has raised \$65 million from an all-star lineup of investors—including Citicorp, Marvin Davis, Times Mirror, George Soros Capital, Seagate Technology, Microsoft, and Gates himself. That outdistances even Netscape Communications, which raised \$36 million before it went public in 1995. Not surprisingly, co-founder Steve Perlman is spouting a giddy vision. "This has the potential," he says, "to replace television as the dominant form of entertainment."

Whoa—don't cancel your cable just yet. Five months into selling these WebTV boxes, the initial glow is fading. Sure, the devices, manufactured by Sony Electronics Inc. and Philips Consumer Electronics, have grabbed an early lead

SURF'S UP: Now Perlman is gathering partners to beef up WebTV's content.

on an exploding pack of rivals all trying to bring the Net to the 85% of Americans not online (table). But since the holidays, sales at Good Guys, a West Coast electronics chain, have slipped 5% from December, compared with the normal 50% seasonal sales drop. Says Sam Roebuck & Co. Vice-President C. Cebuhar: "They were not the mass-market item that some people expected."

LONG HAUL? Especially Perlman. At selling to the digerati and such Internet converts as Harrington, Perlman is finding it hard to reach the masses—couch potatoes. Most still barely know what the Internet is. And compared to TV programming, current Web material is slow, static, and largely silent, thanks to the limited data capacity of most phone lines. "People watching TV expect to be entertained," says Forrester Research Inc. analyst Josh Bernoff. "They

HONEY, WHAT'S ON THE WEB TONIGHT?

A sampling of players bringing the Net to the TV via hardware, software, or Web services:

WEBTV First to market, this startup's \$350 Web-surfing box, manufactured by Sony and Phillips, is leading the pack.

SEGA The video-game maker's \$200 NetLink add-on gives the Saturn machine a link to the Web.

VIEWCALL AMERICA Its On-TV Web service provides E-mail, news, and entertainment to Net TV devices, including Sega's NetLink—all for \$40 a year.

DIBA Several Net-connected devices, including one made by Mitsubishi for under \$300, are in the works. But Diba is late and recently lost Zenith as a Net TV partner.

ORACLE Its Network Computer unit aims to spur \$500 consumer devices from licensees, including Akai Electric—though none has appeared yet.

NAVIO Netscape subsidiary is creating Web browsers for Zenith and Mitsubishi TVs.

unwashed. To do that, he must dramatically improve Web fare—an uphill battle considering he has signed only a few partners so far, including PBS and *TV Guide*, to provide Web news and entertainment.

Perlman hopes to jazz up WebTV content partly through a new technology it is developing called VideoFlash, due out this summer. It vastly speeds up video—even faster than PCs—by compressing data much more than current methods. VideoFlash will make TV-like video possible and shorten the waiting time for downloading Web pages. It also helps those creating TV programming to easily move the content to the Web.

At the same time, WebTV and its partners, Sony and Philips, will step up advertising and marketing this year—the three spent some \$60 million in 1996. WebTV also plans to train retail salespeople on how to better explain WebTV. And Perlman is pushing to get the price of the WebTV boxes below \$300 this year. All this, he says, could jump-start sales.

It had better. So far, Sega Saturn's \$200 NetLink is the only significant rival on the market, but Oracle's deep-pocketed Network Computer partners, including Mitsubishi and Akai Electric, will bring out low-cost Net TV devices this fall. Mean-

while, WebTV is burning cash fast—analysts estimate well over \$2 million a month, while the \$19.95 monthly subscription fees it is charging WebTV customers and royalties from its hardware licensees are bringing in a little over half that. Concedes WebTV Chairman Randy Komisar: "It's a high-wire act."

But if anyone is accustomed to the edge, it's Perlman, whose prickly, headstrong ways have sent him from one Silicon Valley highflier to the next. Take Apple. He joined its Advanced Technology Group in 1985, working on multimedia technologies, including a chip set to turn the Mac into a TV receiver. But in 1990, he left in a huff after he thought Apple sat on that work.

The same thing happened at General Magic

Inc., a startup developing software for handheld communicators. Perlman walked out in 1994, after four years, when higher-ups mothballed his Magic TV interactive software. Then at Catapult Entertainment Inc., a game developer he co-founded in 1994, he was fired a year later after clashing with other managers.

The 36-year-old Perlman blames all this friction on what he calls the "Salieri syndrome," in a reference to Mozart's jealous rival composer. "Some people don't keep up with me, and they don't like that," he says. Now that he's the boss, though, colleagues say his demanding style could pay off.

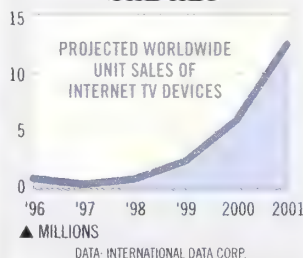
That's being put to the test. Along with Apple colleagues Bruce Leak, who invented Apple's QuickTime, and Phil Goldman, Perlman founded WebTV in 1995 in a former BMW auto dealership. He came up with the idea while surfing the Net one night when he stumbled across Campbell Soup Co.'s Web site. He realized the people it was aimed at weren't on the Web yet and the way to reach them was through TV. That's when he set out to make the Web look good on a TV screen—a feat he accomplished after three days of painstaking work.

EASY DOES IT. By all accounts, WebTV is a snap to use. The box is plugged into the TV like a VCR, hooked up to a phone line, and turned on with the press of a clearly marked button on the remote. The first time, you enter a name, password, and credit-card number, and the unit automatically dials a local phone number. After a short wait to connect to the network—accompanied by animation and music instead of modem screams—you're immediately hooked up to the WebTV home page. From there, you can travel via a click on the remote or an infrared keyboard to E-mail, a search box, or your favorite Web sites.

For Perlman, this is the culmination of a longtime dream to get computing power to the masses. While attending Columbia University as a liberal arts major, he tapped the campus mainframe with a homemade microcomputer to

write papers. And he had the bug even earlier: In high school, Perlman stopped attending classes to start a company that helped Northeast Utilities share a minicomputer. Perlman, who grew up in West Hartford, Conn., graduated anyway, thanks to hours spent cramming. "He was working every minute of the day,"

TUNING IN TO THE NET



et motion, they expect sound." That means it could take years, if er, before Net TV devices achieve hit tus (chart). Market researcher International Data Corp. predicts annual sales n't top 1 million until 1999, and the 4 million it forecasts in 2001 will still il VCR sales. "We don't think it's a rld-beater," says Ed Christy, a con- ant at SRI International.

But Perlman does. A technical whiz o hails from Apple, he argues that bTV can overcome all of its obstacles. nks to his and others' advances in ltimedia and communications, WebTV ices have surprised the skeptics, who bted the Web could look good on a TV en (page 202). And while rivals keep ering to get their devices on the mar-

Perlman's box went from prototype ore shelves in just 14 months. ow, Perlman plans to up the ante making WebTV into a full-fledged on- network—one that makes most of money on advertising to the Internet-

recalls Perlman's mother, Adele.

That hasn't changed at WebTV. "He's always saying, 'Why can't we have this feature now?'" says Chief Operating Officer Leak. Perlman's relentless pace is felt throughout the company, where three product generations are being developed in parallel. Perlman tinkers with them all as he gets results from a full-time WebTV psychologist, who brings in a dozen con-

sumers a week to test reactions to new features. That, plus data from WebTV's network logs on what customers view and what mistakes they make, provide immediate feedback.

So far, it's working. Returns are less than 4% at Good Guys, for instance, and subscription cancellations are under 5%—both low compared with other new products. And, some commercial Web sites

report significant traffic from WebTV owners. For instance, WebTV now represents the fourth-largest block of visitors to E! Online, the Web arm of the cable channel.

Still, that's a small corner of cyberspace. Perlman has a long way to go before he becomes the Bill Paley of the Internet.

By Robert D. Hof in Palo Alto, Ca

WEBTV'S BEHIND-THIE-SCREEN BREAKTHROUGH

In the 1980s, Steve Perlman spent months at Apple Computer Inc. grappling with one vexing problem: how to build low-cost Macintosh monitors that wouldn't flicker. It was a grind, but there were some amusing moments. When research showed that young women were especially sensitive to flicker, the twentysomething Perlman had to recruit quite a few to work with him as test subjects in a darkened lab. "I got a lot of 'Yeah, I've heard that one before,'" he says.

But the long hours paid off. Macs came to set the standard for affordable, high-quality display technology. And Perlman's experience paved the way for WebTV. Indeed, most of the company's pending patents describe ways to make Web pages look good on TV screens.

That's not as simple as it may sound. The fact is, TVs were never meant to display crisp pictures with sharp edges, let alone text. Unlike pricey computer monitors, which were developed for close-up viewing, TVs were designed to be watched from across a room.

"T" FOR TROUBLE. The key components in TVs and monitors are identical. Both rely on electron "guns" in the picture tube that draw images by scanning streams of electrons in horizontal lines across a glass plate. The beam causes tiny dots on the glass to fluoresce in different colors. But there the similarity ends. TVs "refresh" the screen image at a

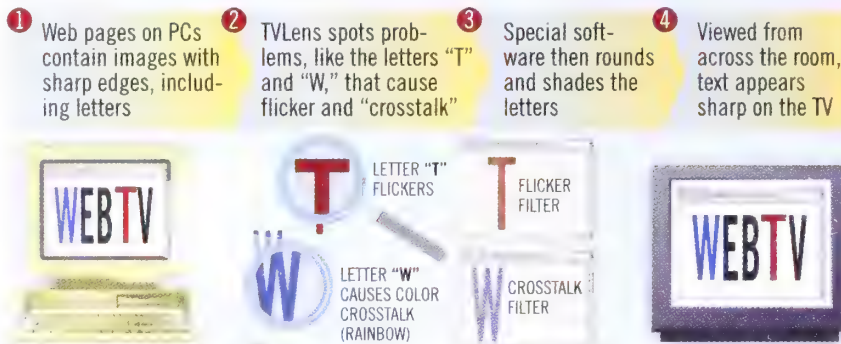
leisurely 30 frames per second. Viewed up close, that's not fast enough, so the picture appears fuzzy. Computer monitors redraw the picture at least twice as fast.

Another big problem with TVs is color distortion. When color TVs were developed in the 1950s, they had to be compatible with old black-and-white sets. So engineers figured out

Similarly, the letters "M" and "W" cause the TV to send brightness and color signals simultaneously, resulting in the dreaded rainbow. To avoid such color crosstalk, TVLens redraws these letters to soften the sharp edges.

Improving overall resolution is more difficult, since the number of horizontal scanning lines is fixed by national standards. Perlman solved the problem by applying noise-cancellation tricks similar to what NASA uses when it cleans up satellite images of earth. Without actually adding new picture elements, or "pixels," it increases the

HOW THE TVLENS FILTER WORKS



a low-cost way to cram color signals into the same black-and-white signals. But there was a trade-off: Coded instructions that determine color and brightness (which computer monitors handle separately) sometimes interfere with each other, causing "crosstalk"—a sudden, jarring rainbow of colors on the screen.

Perlman's solution is a software filter called TVLens that dissects each visual element on a Web page and subtly alters any component that can cause flicker or crosstalk. The thin horizontal line on the letter "T," for example, is a real troublemaker. Because TVs alternately scan odd and even horizontal lines in rapid succession, the top of the "T" often flickers in and out of view. TVLens displays the "T" slightly differently on alternating lines, so that it remains visible.

contrast in the image.

WebTV isn't the only company beaming Web pages onto TV sets. Apple's Pippin game machine and Sega Enterprises Ltd.'s NetLink, for example, offer low-cost Web browsing on a TV. "Everyone uses similar tricks to clean up the screen," says Kevin Deierling, program manager for 8X8 Inc. in Santa Clara, Calif. His company sells a settop box that turns a TV into a videophone. Soon, it will add a Web browser that promises WebTV-style image enhancement.

The difference is, WebTV arrived ahead of the competition and won glowing reviews on the quality of its images. That's an important first step. In the case of Internet TV, a crisp picture could be worth a lot more than a thousand words.

By Neil Gross in New York

THE DUSTUP OVER FINE AIR POLLUTANTS

In spite of industry ire, tougher EPA rules look all but certain

On Mar. 12, officials at the Environmental Protection Agency began combing through thousands of comments from corporate lobbyists, environmentalists, and state regulators on an EPA proposal to strengthen the rules governing air pollution. The proposal would, for the first time, regulate emissions of some of the tiniest airborne

The EPA has proposed that the rules become final July 19. Although states would not be required to comply until 2004, some may act even earlier, requiring utilities and the oil, auto, and mining industries to retrofit machinery or add costly new scrubbers to smokestacks.

The industry attack on the regulations is led by the Air Quality Standards

death. Industry critics want access to the researchers' raw files to see whether the published reports accurately reflect the data. "They are trying to slander [the scientists'] reputations," says Morton Lippmann, a member of the EPA's independent Science Advisory Board.

EPA Administrator Carol M. Browner is legally obligated to consider all comments before making a decision. But in the end, industry and environmentalists speculate that the EPA will adopt rules close to what's been proposed. "We're considering everything," says one senior EPA aide. "But it's simply not open to negotiation." Meanwhile, the EPA is adding to industry's agitation by moving forward with a proposal to curb ozone emissions. "This may be too far, too fast," warns Senator John H. Chafee (R-R.I.), a longtime champion of the Clean Air Act.

STRENGTHENING CLEAN-AIR REGS *Lawyers are already preparing for legal challenges*

PRO:

The EPA says tiny dust particles, 2.5 microns or smaller, may cause 10,000 to 100,000 deaths per year. New regulations would cost an estimated \$8.4 billion, with savings in health-care costs of more than \$120 billion.

Dust particles, as little as one-seventh the width of a human hair. Industry has launched a broad public campaign to fight the new regulations, which could cost tens of billions of dollars.

DATA. Why such a fuss? A growing body of scientific evidence suggests these dust specks—emitted from power plants, boilers, and other industrial sources as well as autos—cause health problems linked to between 10,000 and 100,000 premature deaths each year. The figures are not precise, but the pollutants could be among the nation's most dangerous public health threats.

Complying with the new rules will be costly. Industry puts the price tag at upwards of \$23 billion. "We have no idea where it might end," says Paul Bailey, director of the health and environmental department at the American Petroleum Institute. EPA estimates the costs much lower—about \$8.4 billion annually for the dust rule and a proposal to



INVISIBLE THREAT:

Autos are one source of the deadly dust

Coalition, a 600-member umbrella group including heavy manufacturing firms and small businesses. It has

already spent \$1 million. Its allies include such anti-regulatory groups as Citizens for a Sound Economy, which has taken to the airwaves claiming the rules would ban backyard barbecues. Catchy, but untrue.

Business is also bringing in high-powered lawyers, including C. Boyden Gray, President Bush's general counsel, who has been hired by Geneva Steel. Gray, who also chairs Citizens for a Sound Economy, says he's laying the groundwork for legal challenges. "What else can we do?" he asks.

In recent weeks, industry has taken aim at two scientists from the Harvard School of Public Health—Douglas W. Dockery and Joel D. Schwartz. They are responsible for much of the work leading to the conclusion that the tiny pollutants, called fine particulates, cause premature

CON:

Industry claims that the data linking tiny dust particles to premature deaths remain too uncertain to justify draconian regulations. Industry's estimate of the cost: Upwards of \$23 billion annually.

Moderate GOP lawmakers such as Chafee are trying to broker an agreement between the Administration and industry.

Chafee has urged the Administration to take a slower approach, in part because many cities have failed to meet current obligations to clean up the air. Under a Chafee plan, the EPA would hold off on the ozone standard until the dust rule settles. The agency would monitor dust pollution for five years while developing a specific standard.

Although industry is accustomed to fighting the EPA through GOP friends on Capitol Hill, Republicans will have a tough time voting for any measure that would block clean air. After taking a beating last year for its anti-environmental strategy, the GOP is eager to appear more moderate on those issues. And other battles are looming, over the Superfund toxic cleanup plan and reauthorization of the Endangered Species Act, to mention two. Republicans are finding that they have to be careful about where to pick their fights.

By Mary Beth Regan in Washington

Physician practice management groups are revolutionizing health care, while Wall Street cheers

The last thing that the medical world needs is another acronym. But add PPM to the list anyway, and write it in big, bold letters: The explosive emergence of the physician-practice-management industry promises to alter the balance of power in health care in the 1990s as greatly as the health-maintenance organization did in the 1980s. All across America, doctors by the thousand are joining forces under the PPM banner, giving rise to a profoundly new sort of enterprise: publicly traded, professionally run, ultra-acquisitive corporations assembled from doctors' practices.

At least 30 PPM companies have gone public already, and dozens more are waiting in the Wall Street wings, each angling for a share of the \$200 billion-a-year market in physicians' services. To date, only about 8% of the nation's 527,000 practicing doctors have affiliated with a PPM company. But barring a stock market collapse, this fledgling industry is likely to sustain its high current growth rate into the next century as it drives one of the most momentous trends in health care: the massive consolidation of independent physicians into groups of increasing size, scope, and commercial sophistication.

STRONGER HAND. Peter S. Stamos, director of Stanford University's Comparative Health Research Center, predicts that the PPM industry could capture one-third to one-half of the physician-services market—that is, \$70 billion to \$100 billion in annual revenues—within five years. (In 1996, publicly traded PPMS generated revenues of about \$12 billion.) Adds Dr. Jason Rosenbluth, a physician-turned-analyst at Volpe, Welty & Co. in San Francisco: "I'm convinced that PPM not only is here to stay—it will become the new center of the health-care universe."

The PPM industry is a potent counterrevolutionary force: It strengthens doctors' hands in negotiating terms with HMOs, PPOs, and the like. In recent

HEALTH CARE

DOCTOR



ING.



years, these managed-care enforcers have impinged on doctors' medical authority by requiring advance authorization for even simple procedures and by often refusing to underwrite costly ones. "We did not like having to dial 1-800-mother-may-I every time we turned around," says Dr. Kenneth Brin, chairman of Summit Medical Group in Summit, N.J., in explaining why his clinic joined MedPartners Inc., the fastest-growing PPM company.

But the PPM is not primarily an instrument of physicians' revenge. To justify their very existence, PPM companies must continually find ways to make doctors more productive and cost-efficient. In this sense, the PPM industry is itself a creature of managed care but with a critical difference: For all the clout that they have amassed of late, managed-care administrators cannot practice medicine. Only doctors can. Thus, virtually by definition, physicians are better positioned than any other group to attempt the difficult feat of making health care less expensive without compromising quality. Even some HMO executives seem willing to concede that point. "Well-managed physician groups are the only way we can offer a better service," says Arthur Southam, CEO of Health Net, the second-largest HMO in California.

The PPM industry has its critics, to be sure. Even many doctors who acknowledge the benefits of professionalizing their business management are loath to join forces with a Wall Street-traded corporation, fearing that, in the long run, their best interests and those of their patients will be subjugated to investors' desire for profit. "In a nonprofit, while you certainly have a bottom line, we don't have investors looking over our shoulder," says Dr. David Drucker, the chief operating officer of the Palo Alto Medical Foundation, a 250-physician group that formed a joint venture with Sutter/CHS, a nonprofit hospital system,

rather than affiliate with a PPM company.

By almost any measure, however, the leading PPM companies now rank among the most dynamic in the entire health-care field. Late last year, PPM stocks fell by 20% on average from their highs, but PhyCor, the industry prototype, still commands a price-earnings ratio in the mid-60s, compared with 18 for the leading hospital company, Columbia/HCA Healthcare Corp. Founded in 1988 by a quartet of former hospital administrators, Nashville's PhyCor has methodically built a far-flung network of 12,540 physicians by acquiring 47 large multi-specialty clinics one by one.

PELL-MELL GROWTH. PhyCor has recently picked up its pace, snapping up 13 clinics in 1996, including the famed Straub Clinic & Hospital in Honolulu. PhyCor's stock, which was launched at \$16 in 1992, now trades at a split-adjusted \$108. "At this point, the only constraints on our growth are self-imposed," says Joseph C. Hutts, PhyCor's CEO.



PHYCOR EXECUTIVES AND DOCTORS, ARNETT CLINIC CEO Joseph Hutts (second row, center) says of the industry's giant: "At this point, the only constraints on our growth are self-imposed"

PhyCor's archival, MedPartners, was founded in Birmingham, Ala., in 1993 by Larry R. House, formerly chief operating officer at HealthSouth Corp., now the nation's largest operator of rehabilitation clinics. In racing to catch up to PhyCor, MedPartners has swallowed a half-dozen sizable PPM companies whole—even as it acquired dozens of individual clinics. In the process, the

company's revenues have soared from \$1.2 million in 1993 to \$4.8 billion last year. Analysts predict that MedPartners will top the \$6 billion mark in 1997.

In January, MedPartners announced a \$490 million acquisition of InPhyNet Medical Management Inc., a Florida PPM company. The deal surprised Wall Street, which hadn't expected MedPartners to strike again so soon after closing its \$1.9 billion purchase of Caremark International Inc. House, MedPartners' CEO, is unrepentant: "You have to be bold and aggressive to build what we want to build, and that's not going to change."

In a sense, the entire medical profession has been trying to catch up to the rest of the rapidly evolving health-care industry. Even as hospitals and health insurers by the hundreds merged in the 1970s and 1980s to create new corporate behemoths, medicine remained a cottage industry. A decade ago, 80% of physicians were still self-employed, mostly in solo practice. This figure since has dwindled at an accelerating rate—to 55% by the start of 1996 (charts). "If current trends persist," concluded a recent study in the *Journal of the American Medical Assn.*, "a majority of physicians will be employees in the very near future."

THEIR OWN KIND. Kaiser Foundation Health Plans and other so-called staff model HMOs long have employed their own corps of salaried doctors. Over the past decade, many hospitals followed suit, often by buying practices. But surveys have found that as many as 80% of hospitals that acquire doctor groups operate them at a loss. HMOs have not



LARRY HOUSE, MEDPARTNERS
Wall Street was surprised when MedPartners bought InPhyNet for \$490 million in January. House says: "You have to be bold and aggressive to build what we want to build"

fared much better. The evidence emphatically suggests that doctors are much better motivated and more productive when working with hospitals and HMOs, not for them.

By a wide and increasing margin, employee physicians prefer to go to work for other doctors in physician-owned group practices than to sign on with other sorts of employers. The medical group practice is akin to a law or accounting firm. Employees can ascend through the ranks to partner and thus share in the ownership of the firm. After inching up throughout the 1980s, the number of group practices jumped sharply from about 13,000 in 1991 to

19,800 in 1996, according to the American Medical Assn.

Ever since the Mayo Clinic rose to preeminence in the early 1900s, group practice has flourished as an alternative to solo calling. During the long heyday of fee-for-service medicine, the minority of American doctors who took the Mayo model and banded together to found multispecialty clinics across the country were acting on the belief—by now well-documented—that collegial practice enhanced quality of care. **CUTTHROAT.** These days, however, the allure of group practice is mainly economic. The cost-cutting imperatives of managed-care payment plans and the advent of complex medical information technology have combined to make solo practice a Darwinian ordeal. On the other hand, group practice per se is no cure for what ails the physician in this era of cut-throat commerce. Even many of the largest and most advanced doctor groups have grudgingly concluded that they lack either the capital, the

business knowhow, or the sheer nerve to go it alone into the brave new world of managed care.

Enter the PPM, a kind of holding company for group practices. Often, the company buys the assets of a physician group—its clinic building, equipment, accounts receivable, and so on. However, the doctors continue as employees of their own professional corporation, which signs a long-term service contract with the PPM. The doctors retain full sovereignty over medical policy and physician personnel matters, including pay. Nonphysician clinic employees are transferred to the payroll of the PPM, which recapitalizes the practice

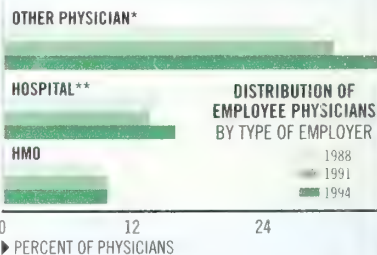
The Solo Practitioner Is Disappearing...



...As More Doctors Become Employees...



...Working For Other Doctors



DATA: AMERICAN MEDICAL ASSOCIATION

*INCLUDES MEDICAL GROUPS OWNED BY PPM COMPANIES

**DOES NOT INCLUDE HOSPITALS GOVERNED BY MEDICAL SCHOOLS, UNIVERSITIES, OR STATE OR LOCAL GOVERNMENTS

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The underlying idea is that the PPM and its affiliated physicians prosper together or not at all. At the Nalle Clinic in Charlotte, N.C., the average doctor's pay has risen every year since the old-line institution joined PhyCor in 1990, having decreased slightly over the preceding three years. "Are our doctors

happy? No, not at all," says Dr. Raymond Fernandez, Nalle Clinic's CEO. "But with all the crap happening to doctors these days, they are relatively happy because they don't have to worry about the future anymore."

OILED MACHINERY. The PPM makeover of an acquired clinic usually begins with the business equivalent of a complete physical—an audit that analyzes the generation of revenues and of costs in minute detail. PPM acquirers tend to replace local administrators with their own people and may trim overhead by eliminating support staff positions in the bargain. The new owners also consolidate purchasing, obtaining everything from paper clips and envelopes to catheters and malpractice insurance at big discounts to what the clinic had paid previously. A well-oiled PPM machine can easily reduce overhead by 10% to 15% or more. Meanwhile, to boost the productivity of physicians and nonphysicians alike, well-run PPM companies invest heavily in new telecom-

THE PPM PRESCRIPTION

1 The physician-practice-manager (PPM) company buys the hard part of a doctor-owned clinic. The selling doctors remain employees of their professional corporation, which signs a 30- or 40-year service contract with the PPM.

HOW THE TWO LEADERS STACK UP

	PHYCOR	MEDPARTNERS
REVENUES (1996)*	\$71 million	\$2.5 billion
NET INCOME (1996)	36 million	134 million**
STOCK MARKET CAPITALIZATION**	2.3 billion	3.7 billion
AFFILIATED PHYSICIANS	12,540	10,688
PERCENT OF TOTAL REVENUES FROM CAPITATED CONTRACTS	34%	55%

*PhyCor subtracts from its own revenues the portion of clinic revenues paid to its affiliated physicians; MedPartners does not.

**Excluding merger and acquisition charges

munications and computer systems.

Many PPMs are wholly devoted to a single medical specialty such as oncology (American Oncology Resources), cardiology (MedCath), or neonatology (Cardiacatrix). But multispecialty PPMs such as PhyCor and MedPartners try to strike a balance between specialists and primary-care physicians, the gatekeepers of managed care. Optimal staffing is itself a potent form of productivity enhancement. Houston's Kelsey-Seybold Clinic, one of MedPartner's largest affiliates, added nearly \$5 million a year in profit by increasing patient visits an average of 1.9 per primary-care physician per day.

PPM companies also look to spur

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change for 15% to 20% of income, the PPM invests in the clinic and manages its business. The PPM reorganizes the clinic's office operations to make them more cost-effective and boosts productivity by investing in new information technology and medical equipment. The clinic remains a separate legal entity associated with the PPM.

growth by underwriting the hiring of more doctors, opening branch clinics, adding additional managed-care contracts, and purchasing the costly high-tech equipment needed to add such lucrative ancillary services as magnetic resonance imaging (MRI). One of the most telling statistical measures of PPM performance is "same-clinic revenue growth"—that is, gains generated by adding new patients rather than acquired operations. In 1992, PhyCor has boosted its same-clinic growth rate from 4% a year to a stunning 18%.

PPM is an industry of stellar growth and extraordinary profitability. In multispecialty companies, only 7¢ to 8¢ of every dollar of net revenue falls to the bottom

3 The doctors collaborate in running the clinic through a governing board on which they and their PPM partner have an equal number of seats. The board sets budgets, approves contracts, and ratifies all major business decisions.

4 Through their professional corporation, the doctors retain sovereignty over all medical policy and physician personnel matters.

5 Often, the PPM will suggest that the doctors rework their compensation system to reflect more fairly each doctor's value, but it cannot force a change. The PPM advances the funds to cover recruitment expense, signing bonuses, and other capital investment required to expand the medical staff, but the doctors do the hiring.

line before taxes. Single-specialty PPMs tend to have higher margins, reflecting the superior earning power of certain types of specialists. Companies of both sorts will become incrementally more profitable as they grow. But the PPM industry is pinning its principal hope for margin improvement on something that is becoming the bane of the typical physician's existence: capitation.

SAVVY AND LUCK. Most HMOs started out by paying doctors after each patient visit. Increasingly, though, managed-care plans are switching from reimbursement to prepayment, also known as capitation. Under capitation, the physician receives a modest sum in advance to cover all the care that each

enrollee will receive over a given period. The effect is to restore physicians' clinical autonomy, but at the price of their accepting open-ended financial risk.

Obviously, capitation favors size; the larger a population of patients, the more predictable the incidence of serious illness and thus the cost of treatment. In many markets, capitation rates now are being set so low that for solo practitioners to be assured of maintaining their incomes they must not only have business savvy but be lucky—that is, spared the burden of treating an unexpected number of seriously ill patients. PPM companies are better equipped than individual physicians to analyze and assume the financial risks of capitation

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and negotiate terms with health plans.

But these and other dealings between big PPMs and HMOs are no longer the arm-wrestling contests that they were not long ago. "The essence of the interaction is not 'I want you to give me a five-point rate increase' but 'How do we work together to create a higher-value service of mutual benefit?'" says Mark L. Wagar, who runs MedPartners' West Coast operations.

On Mar. 5, MedPartners and Aetna U.S. Healthcare, a subsidiary of Aetna Inc., put this philosophy into practice on a grand scale, announcing an agreement under which many of the health insurer's 14 million health-care customers will gain access to the 10,688 physicians affiliated with MedPartners. This, the first nationwide alliance between an HMO and a PPM company, is certain to pressure other managed-care insurers to follow suit.

Other HMOs and PPMs are collaborating in more limited but no less significant ways. For example, in January, Pacificare Health Systems Inc. joined with MedPartners and 34 other physician groups to launch "Express Referrals," a pilot program under which a doctor can refer a patient to a colleague without an HMO review. This back-to-the-future innovation shows Pacificare's confidence in the physician groups' own internal controls—enough so that it's willing to let doctors again make autonomous decisions about patient care.

SORRY FATE. While many hospitals persist in converting independent physicians into salaried employees, a growing number of nonprofit hospitals in particular have begun adapting the infrastructure of PPMs to their own needs by joining with doctors to form management service organizations. Like PPMs, MSOs are physician-driven companies that use advanced business methods to rationalize medical practice. But MSOs are privately held entities in which ownership generally is split 50-50 between doctors and hospitals. One of the largest MSOs, involving 2,500 physicians, was recently formed by North Shore Health Systems, a nonprofit hospital group on New York's Long Island.



**DR. RAYMOND FERNANDEZ,
NALLE CLINIC**

"With all the crap happening to doctors these days, [ours] are relatively happy because they don't have to worry about the future anymore"

In the long run, the spread of MSOs could curtail the PPM industry's growth prospects. However, at the moment, the PPM companies are constrained not by competition from outside or inside the industry but by their own management capacity. Modest profit margins and heavy reliance on acquisitions, coupled with the intricacies of medical practice and the stubbornly independent ways of doctors, make physician practice management one of the most unforgiving businesses in health care.

Consider the sorry fate of Coastal Physician Group. Operating out of Durham, N.C., Coastal for a time vied with PhyCor for leadership of the PPM industry but turned out to be far better at acquiring practices than at running them. In 1996, Dr. Steven M. Scott, Coastal's founder and CEO, was ousted by his board but retaliated by launching

a successful proxy fight. Coastal has been selling assets in an attempt to survive, its stock has plummeted from 40 to about 2.

Many PPM issues have faded from their 1996 highs as a series of disappointing earnings reports sobered investors, initially intoxicated by the emerging industry's long-term potential. Even so, PPM stocks continue to trade at much higher multiples—15 times earnings on average—than privately held physician practices, which are available at 6 to 8 times earnings. As long as this valuation gap persists, PPM companies will be able to continue to use their shares not only to buy practices cheap but also to boost their earnings promptly.

TROJAN HORSE? The PPM industry is more dependent than most on maintaining favor with investors. "If acquisitions were no longer immediately additive to earnings, I would expect a tremendous shakeout in the industry," says Gary J. Frazier, a managing director of Bear, Stearns & Co. "I expect that growth in this industry will accelerate—then slow down—for at least the next three to five years."

There are those who see PPM as a kind of Trojan Horse placed by Wall Street at the very heart of health care. Sooner or later, they warn, the pin-striped legions will break forth and wreak havoc by sacrificing the interests of physicians and patients alike on the altar of earnings-per-share growth. Given the pivotal position of the physician in the health-care economy and the rapidly increasing size and power of the PPM industry, the potential for abuse is indeed enormous.

On the other hand, PPMs are not stigmatizing the corporatization of health care but bringing up the rear. By arming physicians with the weapons of Business, the PPM industry is at least making a fair fight of it. In the long term, at least, the patient is likely to benefit, too. After all, it is the doctor who takes the Hippocratic oath: "In every house where I come, I will do only for the good of my patients"—not the HMO or hospital administrator.

*By Anthony Bianco in New York
with Eric Schine in Los Angeles*

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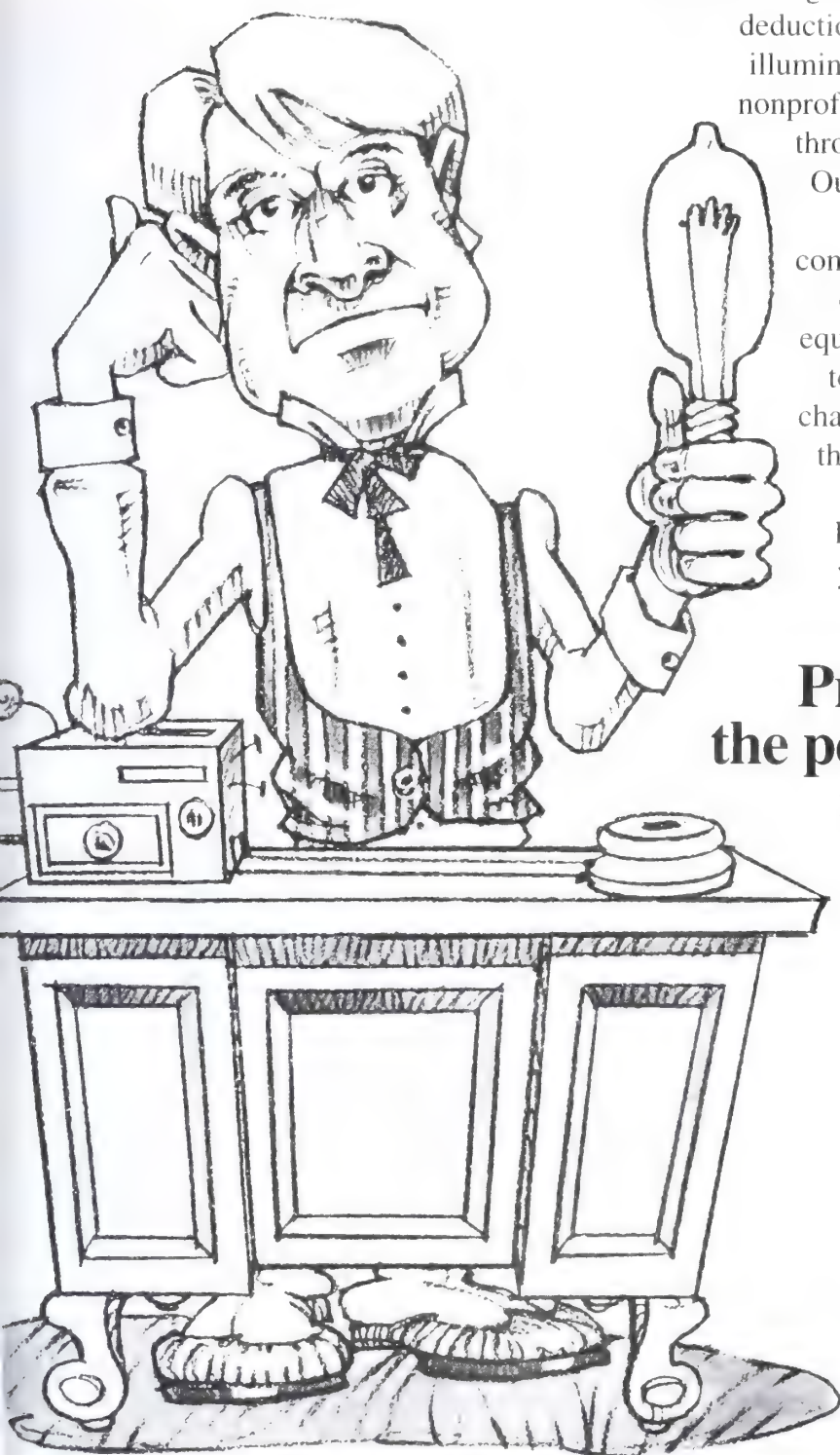
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FROM THE DUGOUT?

hunch of millionaire ballplayers are eyeing the owner's box

key Mantle was once asked what he would do if he were he playing in these days of stratospheric prices. "Well," said the Mick, "I'd go knock on the owner's door and say, 'Hey, partner.'" The story may be apocryphal, but the prospect of sports ownership is joining the clubby ranks of team owners and investors.

And why not? Albert Pujols's deal with the St. Louis Cardinals was a hefty \$10 million this season. San Francisco Giants outfielder Barry Bonds will earn more than \$11 million annually. With so much money on the line, it's no surprise that some players are pursuing second careers as owners only dreamed of: owning a piece of a franchise.

A few ex-players are already on the hunt. New York City legend George Brett, now a front-office official, leads the way seeking to buy the old club. Kirby Puckett—in the front of the Minnesota Twins—is eager for a piece of the team. "I'd like to have ownership in a franchise—Minnesota if the opportunity presents itself," says his agent, Ron Shapiro.

IT'S FOREVER. Under league rules, players can't own Major League baseball franchises. "It sets up a stagnant series of conflicts of interests," Milwaukee Brewers owner and acting Baseball Commissioner Bud Selig hasn't stopped a number of players from kicking around the idea. Iron man Cal Ripken Jr. briefly discussed buying the Baltimore Orioles during contract talks five years ago, and he's still interested. "I have an acquired expertise in baseball," says Ripken, taking a break from spring training in Fort Lauderdale. "I like to put it to use, and you can

only do that fully if you're the owner."

Other wealthy players are also looking ahead. "I could seriously think about that," says Bonds, when asked about investing in his team. "I love San Francisco—and the idea of being with the Giants forever." San Diego's Tony



TONY GWYNN



ISIAH THOMAS

Gwynn could one day join Thomas in the ranks of black investors

Gwynn, a seven-time National League batting champion, isn't much interested in putting his pesos in the money-losing Padres. But he believes Charlotte, N.C., is ripe for an expansion club. "If there's a place primed for baseball right now, that's it," says Gwynn, sounding very much like a budding entrepreneur.

In the old days, most ex-players lacked the serious money needed for franchise investment. That was then. In 1996, 108 major leaguers earned at least \$3 million, *USA Today* reported. Players making a mere million—247—are getting as common as hot dog vendors.

There's a history, though limited, of athlete-owners. In the 1950s, Hall of Fame slugger Hank Greenberg was a part-owner of the Cleveland Indians

and, later, the Chicago White Sox. Tennis great Pam Shriver is an Orioles investor, and in the National Basketball Assn., former hoops star Isiah Thomas has about 9% of the Toronto Raptors and is part of a group negotiating for a bigger ownership role. With the price tag on top-rung baseball franchises soaring above \$200 million, "players won't be able to own [controlling] shares. But many have a lot of money and know the game. It makes sense for them" to be investors, says baseball economist and author Andrew Zimbalist.

PEACE? Owners have their own reasons to welcome players as partners. Topping the list: image. A hometown hero could reclaim fans alienated by strikes and lockouts. "Family owners often don't

have a background in baseball. With a former superstar, you have immediate cachet with fans," says Zimbalist. Padres President Larry Lucchino, agrees: "Tony Gwynn and Kirby Puckett have what might take an owner with a different background years to build up."

Bringing ex-players into the fold would also likely mean more Hispanic and African-American investors—a development considered overdue by many. And don't forget the profit motive. "The larger the pool of potential investors, the better for those of us with ownership stakes," says Lucchino.

Less certain would be the affect on often-

bitter player-management relations. "The more people you have on both sides with shared experiences, the less likely you will have discord," says players' union chief Donald M. Fehr. Says Selig: "It could be an extremely healthy situation." Gwynn disagrees. "It wouldn't matter one bit," he says. "It sounds like it should. But ownership is going to be ownership."

Perhaps. But maybe more players among the owners might quell some of the internecine warfare. You've got to believe Yankees principal owner George Steinbrenner would have thought twice about breaking ranks to cut his own \$10 million-a-year sponsorship deal with Adidas if he had to lean across the table and explain himself to Albert Belle.

By Mark Hyman in Scottsdale, Ariz.

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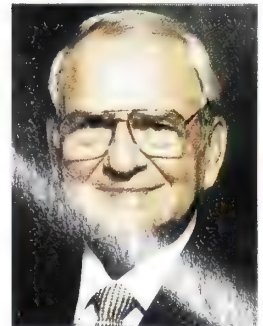


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EDITED BY EDWARD C. BAIG

BANK FUNDS: PLAYING CATCH-UP

George Saffaye would love the convenience of buying mutual funds at his bank. But banks haven't exactly offered the 29-year-old Manhattan sales manager the kinds of products he wants. "They're like dogs," says Saffaye, echoing a common view

held by many investors. Indeed, mutual funds sold by banks have traditionally been heavy on loads and light on providing investors with consistently strong long-term results.

Now banks are trying to change all that—by both managing their proprietary mutual funds and selling independent funds at a discount. NationsBank, for example, recently introduced a mutual-funds supermarket, called Fund Solutions, that's similar to Charles Schwab's OneSource service. Through Fund Solutions, investors can choose from over 400 no-load funds, ranging from the bank's own NationsFunds family to a variety of funds managed by others, including Dreyfus, Janus, and Crabbe Huson. Later this year, customers who use Fund Solutions will also be able to get an account that bundles banking and investment services. It will include such perks as free checking and breaks on credit-card fees.

WIDER SELECTION. Meanwhile, Wachovia Investments, the brokerage unit of Wachovia Corp. in Winston-Salem, N.C., plans to unveil a similar service in mid-1997. "We have customers who might bank with us but do their investing with a Schwab," says Ellen Sartin, senior vice-president. "We want

them to do it all with us."

Other banks share that objective. In December, KeyCorp of Cleveland began offering Schwab's OneSource mutual-fund service to give clients a wider selection of popular no-load options. The

bank's clients can also open a cash-man-

agement account that provides checking, brokerage and margin-account options so customers can bank and invest at once. Some CMA clients also get a break on annual fees

for credit cards and deposit accounts. "It's definitely appealing to be able to invest and bank in one place, rather than having to deal with several different companies," says Saffaye.

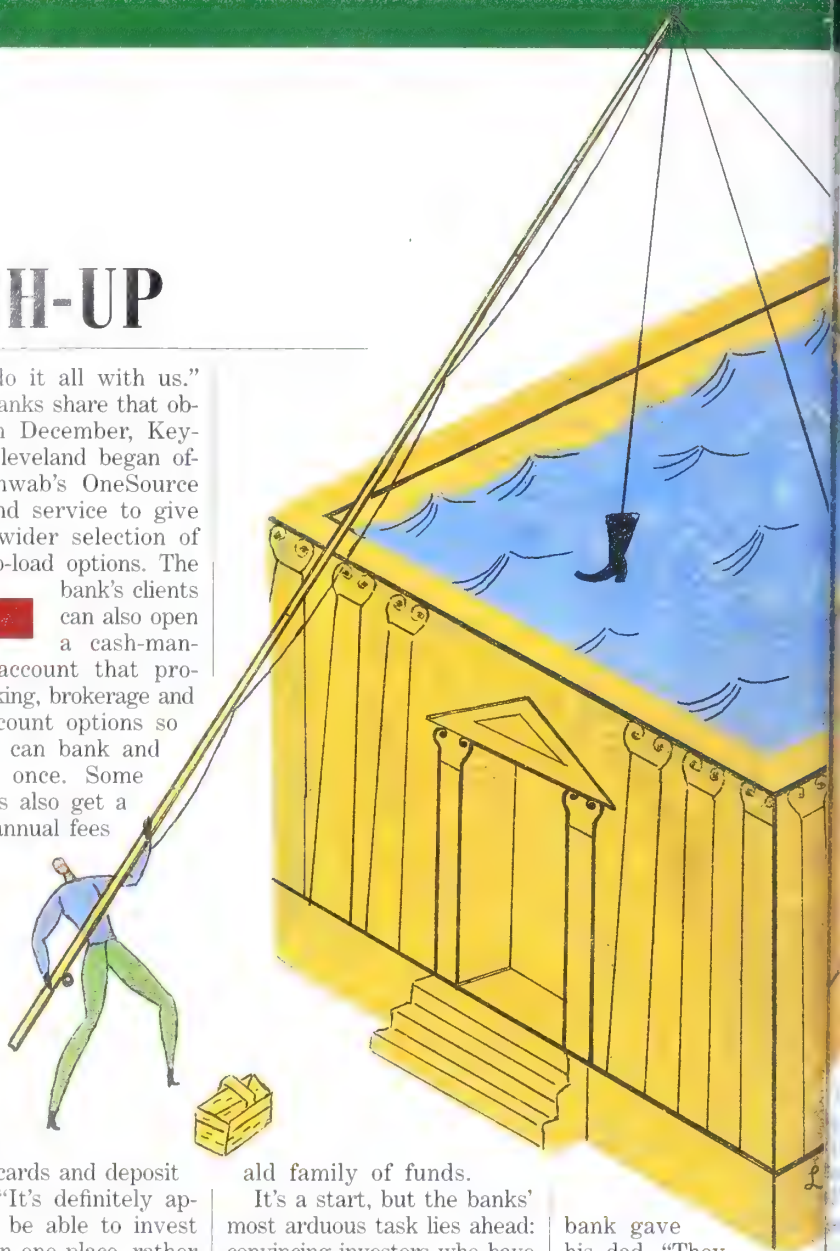
To compete against the Fidelitys and Vanguard of the world, banks are also starting to eliminate costly loads. "Bank funds have to be price competitive," says John Pasucci, a Manhattan accountant and investor who buys mutual funds from Dreyfus. Currently about two-thirds of the 1,418 proprietary funds offered by banks carry loads, but banks are increasingly dropping these fees. Just last year, for example, NationsBank axed loads from its funds and Barnett Banks followed suit with its Emer-

ald family of funds.

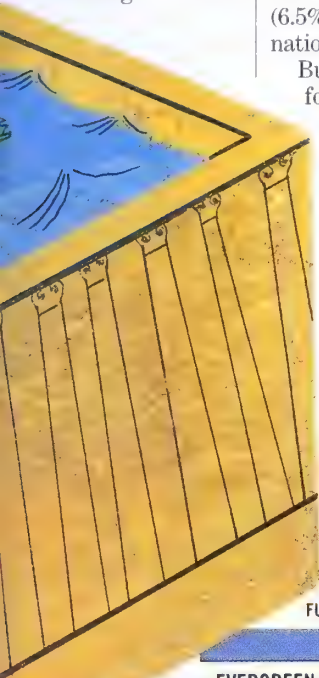
It's a start, but the banks' most arduous task lies ahead: convincing investors who have witnessed shoddy service to reconsider buying funds at the bank. For example, Frank Presson, a certified financial planner in Tucson, recalls that when his mother died in 1992, a NationsBank vice-president advised Presson's 85-year-old stepfather to liquidate some of his stock holdings and put the proceeds in two Nations funds. One was an unrated NationsBank fund that invested in bonds. The other, called Nations Value, was an equity growth and income fund with a performance track record of less than three years. Presson, now 58, nixed the idea—but he's still skeptical about the advice the

bank gave his dad. "They were pushing funds with concern for my father. Else would anyone recommend unproven funds to anyone?" he fumes. A NationsBank spokeswoman responds, "We stand by the professionalism of our people."

Aware that consumer ten mistrust a bank's registered sales reps, many tutions are trying to proprietary funds through dependent financial planners and other more credible sources. Chase Manhattan, for instance, is focusing on its Vista funds via Schwab service that's available only to financial planners. The planners can then re-



the funds to their cus-
s. Harold Evensky, a
ed planner in Coral
, Fla., often buys bank-
ed funds. "The question
k or nonbank is imma-
What's important is
who picks the fund's
holdings. Who



says 'buy'
or 'sell,' he
rs. "It's kind of
o stay away from
unds if they're do-
ill."

general, banks ac-
do an adequate
managing domes-
uity funds, says
ky. He compared
ree-year and five-
performance of 33
managed domestic
funds against a
se of 1,000 gener-
al equity funds.
sults: Bank funds
ned on par with
rated three stars
er (on a five-star scale)
orningstar, the fund rat-
vice. Thus, while many
tic bank funds aren't
performers, they're not
adful, either.

same can't be said of
international equity
funds. Evensky com-

pared 10 international bank-
managed funds against a
group of three-star or better
Morningstar-rated funds.
Here, the bank group's three-
year return for the period
ended Jan. 31 (3.5%) under-
performed all other nonbank
international equity funds,
(6.5%) and the Schwab Inter-
national Index (5.5%).

But some bank funds that
follow particular indexes
merit attention. One
worth a look is State
Street Bank's index hy-
brid fund called SSgA
Small Cap, run for the
past two years by Jeff
Adams. He used a com-
puterized stock-selec-
tion program to achieve
his goal of outperform-
ing the Russell 2000,

Cap, and earned it five stars
from Morningstar. During the
same period, the Russell 2000
returned 13.7%.

If you're thinking of pur-
chasing a bank-managed fund,
there are several things to
keep in mind. Of the more
than 1,000 funds available,
over half are under three
years old. Steer clear of those
"flashes in the pan," says fi-
nancial planner Tom Grzy-
mala, unless you're willing to
take a risk.

CAVEAT. One top-performing
bank fund Grzymala likes is
the no-load BT Investment
Small Cap, which has a three-
year return of 26.5%. BT's op-
erating expense ratio of 1.25%
is also appealing (Grzymala
recommends keeping expense
ratios to 1.4% or less). "It's a

of course, there's no guarantee
her replacements, Tim Woods
and Mary Dugan, can repli-
cate Lisanti's performance.

You'll also want to look be-
yond strong returns. Take
First Union's Evergreen
Growth & Income fund, which
ranked highest among a uni-
verse of bank-managed funds
that have at least \$1 billion
in assets and aren't heavily
invested in money market or
institutional funds. Its five-
year return is impressive but
some of its share classes carry
higher fees than others. Only
Evergreen's Y shares have
lower than average operating
expense ratios and no load.
But those shares aren't for
sale to retail customers now.
Anyone who wants to pur-
chase Evergreen these days

must choose funds with
either an A share desig-
nation (1.45% expense
ratio and 4.75% up-front
load), B shares (2.2% ra-
tio and up to 5% back-
end load), or C shares
(2.15% ratio and load of
up to 1%). "When I see
expenses like that, I
think somebody's mak-
ing a lot of money," says
Grzymala.

As with buying any
mutual fund, investors
need to consider
whether the service and
performance a bank pro-
vides justifies a load.
"Investors often pay
sales charges without
getting corresponding
benefits," says Hope
Feinglass, director of
tax and financial plan-
ning at Money Minds in
Lombard, Ill. "If you're
going to make a \$20,000
investment with a 5.75%
load, you're looking at
fees of \$1,150." That's
real money, especially
when you consider the

without taking on more risk.
In the past three years, SSgA
has met that goal. According
to Lipper Analytical Services,
its 21.9% annualized total re-
turn for the period placed it
second among the top 20 bank
retail fund families, behind
only BT Investment Small

good, aggressive small-cap
growth fund for those who
can withstand volatility." One
big caveat: BT's fund manager
Mary Lisanti left in August,
so as when any manager de-
parts, you'll need to feel com-
fortable with her replace-
ments' investment style. And

many no-load and low-expense
funds investors can choose.
Luckily, banks are finally of-
fering cheaper funds and a far
greater selection than ever be-
fore. Still, investors would be
wise to check out a variety of
sources before banking on a
winner. *Lisa Sanders*

Winners and Losers Among Bank-Managed Mutual Funds

TOP PERFORMERS

BOTTOM PERFORMERS

FUND	AVERAGE ANNUAL TOTAL RETURN*	FUND	AVERAGE ANNUAL TOTAL RETURN*
GENERAL EQUITY			
EVERGREEN GROWTH & INCOME Y	16.8%	GALAXY EQUITY GROWTH A	12.6%
STAGECOACH EQUITY VALUE A	16.4	LANDMARK EQUITY A	11.8
EXCELSIOR INCOME & GROWTH	16.3	ONE GROUP: GULF SOUTH A	10.7
VICTORY DIVERSIFIED STOCK A	16.2	COMPOSITE NORTHWEST A	10.2
EXCELSIOR EQUITY	16.0	PACIFIC HORIZON A	8.8
FIXED INCOME			
PACIFIC HORIZON CORPORATE BOND A	8.3%	VICTORY LIMITED TERM INCOME A	5.0%
SIERRA CORPORATE INCOME A	7.9	NATIONS GOVERNMENT SECURITY PRM A	4.9
COMPOSITE INCOME A	7.3	LANDMARK U.S.	4.8
AMSOUTH BOND FUND	6.6	GOVERNMENT INCOME NATIONS GOVERNMENT SECURITY INV A	4.7
EXCELSIOR MANAGED INCOME RATE GOVERNMENT A	6.6	OVERLAND VARIABLE	3.4

*Average Annual Return from 12/31/91 to 12/31/96

SOURCE: DATA LIPPER ANALYTICAL SERVICES INC.

BOTTOM FISHING FOR NETWORKING STOCKS

First came the euphoria. Then the tumble. Companies that provide the gear used in

constructing the nation's high-speed information network are bloodied and bruised.

Many are trading at less than half their 52-week highs. Overall, the Multitech Networking Index, a basket of two dozen stocks that had surged to a high of 122 in late January, has since fallen to 98. Why the plunge? For one thing, a number of networking companies have reported so-so earnings. Moreover, investors are worried that the two industry giants—Cisco Systems and 3Com—will squeeze smaller rivals. Indeed, 3Com on Feb. 26 announced plans to gobble up U.S. Robotics.

Has the sell-off gone too far? Many networking pros sure think so, at least in the hot remote-access niche of the business. These are the outfits that supply the equipment for connecting to online services and private networks at a distance. "This industry is still growing from 30% to 50%, but remote access is up in the triple digits," says Bida Fong, an analyst at Dell'Oro Group, a market researcher in Portola Valley, Calif.

REVENUE KICK. Remote-access supplier Ascend Communications in Alameda, Calif., is on many Wall Street buy lists. Last year, the company grabbed 35% of the market for "concentrators," the gear that helps companies funnel traffic onto the Internet and private networks. But Ascend's stock dropped from 80 on Jan. 3 to 50 six weeks later, after rival 3Com issued a cautious outlook for the networking business, then turned

around and swallowed up U.S. Robotics. Although it has since bounced up to 55, analysts believe Ascend may live up to its name and climb even further. Earnings are expected to reach \$182 million this year, up from \$113 million in 1996.

SHORT MONEY Ascend's price-earnings ratio of 62 is well below its average 105 p-e since May, 1994.

Ascend may have more going for it than a relatively depressed stock price, says Todd Dagres, a general partner at Battery Ventures, a venture capital firm in Wellesley, Mass. The company gets half its sales from overseas markets and is about to receive a revenue kick from a new line of remote-access switching products. Moreover, Ascend boasts of strong ties to phone companies that are taking over the operations of many private networks.

Such a shift should also benefit Cabletron Systems in Rochester, N.H., and Cascade Communications in Westford, Mass. Both recently acquired companies that make remote-access gear aimed at Internet-service providers (ISPs) and phone companies. J.P. Morgan analyst William D. Rabin sees such products lifting Cabletron's earnings to \$350 million, a 32% rise over last year. At 26.6, Cabletron's p-e ratio is well off the average 37 p-e of the GTSI networking

index. Cascade, whose shares tumbled in January after it reported lower-than-expected earnings, is one of only two companies—Ascend is the other—that supply concentrators able to handle 500 modems at a time. Such equipment is on the wish lists of phone companies that want to boost their network capacities.

Meanwhile, as a type of ultra-high-speed modem known as ADSL (asymmetric digital subscriber line) begins to emerge, other beaten-up companies are worth a look. At \$10 a share, Westell Technologies in Oswego, Ill., is trading at a fraction of the \$56 it drew last June. Shares of Westell, which has sold more ADSL modems than its competitors, could take off again if the company is able to snare one of the con-

tracts expected to be put up for grabs by GTE, Bell Atlantic, and US West. TeleChoice analyst Kim Taylor.

Of course, not every working company with remote-access products bounce back. Analysts re- that Gandalf Technologies in Nepean, Ontario, Micro in Norwood, Mass., Premisys Communication in Fremont, Calif., will re- in the doghouse.

VULNERABLE. These companies are either too dependent on a few big clients or are nimble enough to exploit changes in the market. Gandalf, for example, focuses on corporate networks leaving it vulnerable as and telephone companies ground. And after hitting a peak of 65 last May, Premisys is down to 13.

may soon lose E. dyne, the AT&T subsidiary that is its biggest customer.

One corporate network supplier that bargain hunters do relish is Shiva. Its stock has been hammered, plunging 56% to 15%. But the Ford (Mass.) company, named for the Hindu god of destruction, has a growing role in supplying access products to North Telecom, one of three main providers to phone companies. While p-e that's only of the GTSI index, it's "an company for individuals looking for low p-e entry into the remote-access space," says D. Read technology analyst Robert MacLellan. No only Shiva's sake would wreaking havoc the entire indu-



Torpedoed Treasures

COMPANY	RECENT PRICE*	52-WEEK HIGH	P-E
ASCEND COMMUNICATIONS	55	80	62
CABLETRON SYSTEMS	30	43	26.6
CASCADE COMMUNICATIONS	17	31	37.5
SHIVA	13	87	25
WESTELL TECHNOLOGIES	9	56	N/A

*As of March 1, 1997

SOURCE: MORGAN MULLER

By David M. Wells



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May 22 Albany, NY	June 25 New York City #2	July 15 Philadelphia, PA	July 24 New York City #3	Aug. 5 Syracuse, NY	Sept 10 Atlanta, GA*
June 10 Liberty State Pk, NJ	June 26 Buffalo, NY	July 16 Binghamton, NY	July 29 Long Island, NY	Aug. 7 Chicago, IL	Oct 4 Championship, NYC
June 12 Rochester, NY		July 17 Boston, MA		Aug. 13 San Francisco, CA	

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ARE YOU AN OFFICE SLOB?

Justin O'Brien's office used to be so littered with papers and products that he couldn't

walk around without hurting himself. But the CEO of SunFun Corp., a sporting-goods catalog business in San Carlos, Calif., has—for the most part—cleaned up his act. O'Brien claims he tossed away 750 pounds of unneeded stuff. Conquering clutter has not only saved O'Brien's shins and elbows. The time it takes him to process a customer order has also fallen from two weeks to two days.

American workers are messier than ever, according to the National Association of Professional Organizers (NAPO), an outfit that grew from five office straighteners a dozen years ago to more than 800 today.

PAYING PROS. Yet O'Brien and other "recovering chaotics" have seen what a little neatness can do toward tidying up a company's bottom line. Rather than drown in a sea of spreadsheets and sticky notes, many "messaholics" are paying \$20 to \$200 per hour to hire professional organizers whose effectiveness varies as widely as their fees.

But imposing order may not require professional help. With a little resolve and a lot of trash bags, even a slob can do it.

This may be the age of computers and digital scanners, but a decidedly low-tech approach is the first step toward combating clutter.

"Learn the art of wastebasketry," says Barbara Hemphill, a professional organizer in Raleigh, N.C., and author of *Taming the Paper Tiger* (\$13, Kiplinger Books). In her experience, 80% of office clutter belongs in the trash. "Take no prisoners,"

The Mark of a 'Messaholic'

1. Are you unable to walk freely about the office without bumping into things?
2. Do you spend more than one minute looking for anything?
3. Is it possible to reach for the phone without knocking something over?
4. Can you see the surface of your desk?
5. Do you have files that bulge or that have nothing in them?
6. Are there piles everywhere?

DATA BUSINESS WEEK

Hemphill says. Pitch items that are not time-sensitive, that are available elsewhere, or that have no tax or legal implications.

Next, place papers in one box and objects such as staplers,

punchers, souvenirs and the like in another, advises Karla Jones, a professional organizer in San Mateo, Calif. Sort through the boxes with a 30-gallon trash can at the ready, and if you find yourself agonizing over whether to keep a file or a report for very long, you can probably deep-six it. Although it sounds severe, pare down family pictures and personal items as well. "More than one mome-

to equals clutter," says Jones.

If raking everything into two piles seems unwieldy, "start with just a corner of your desk, and when you get to a clear spot, start working on another part," says Stephanie Winston, author of *Stephanie Winston's Best Organizing Tips* (\$11, Simon & Schuster). Organizing can be done in stages. Try dedicating just 15 minutes a day to the cause.

or on slow Fridays in summer.

Think also about no ways to store the stuff you feel compelled to keep. Stacks of neatly labeled cardboard boxes or milk crates will often suffice. And standing shoe bags, draped over side of a cubicle or hanging from a wall hook, can provide numerous nooks for storing envelopes, computer disks and other office necessities. "People really don't consider the storage possibilities

walls," says Schulman, who specializes in maximizing space as owner of White Rabbit Home Offices in Deerfield, Ill.

To unclutter further, stop jotting down thoughts, do lists, or phone numbers on the backs of envelopes, sticky notes, or other bits of paper. Instead, consider date jotting on a daily planner or spiral notebook. Personal information-management software programs (Like Organizer, Star Organizer, Sidekick, Day-Timer Organizer) also provide a paper

means for storing notes and phone numbers. Take a pair of scissors to all those magazines piling up and clip articles of interest. "Store them in a file that you grab on your way to catch the train," says Stephanie Denton, an organizing consultant based in Cincinnati.

After things are thrown out or put away, remember that remaining orderly is a never-ending battle. Managing office clutter is like weeding a garden, says O'Brien, the SunFun CEO. "You've got to stay on top of it because clutter, like weeds, just keeps on coming." The trick is to yank it up before it spreads. *Kate M...*



WORKPLACE

A decent filing system helps too, of course. File by project, date, or even color (red folders for bills, blue for clients, etc.) If your system results in file folders that contain only a page or two, you're being a bit overzealous. On the other hand, files with more than 30 pieces of paper should be broken down into subcategories. Stamp a date on documents so it's easy to tell if the information is fresh. Whenever handling a file, check if there are papers inside that can be tossed.

Schedule time to purge files at least once a year. Two possibilities are the period between the yearend holidays

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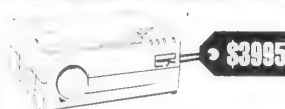
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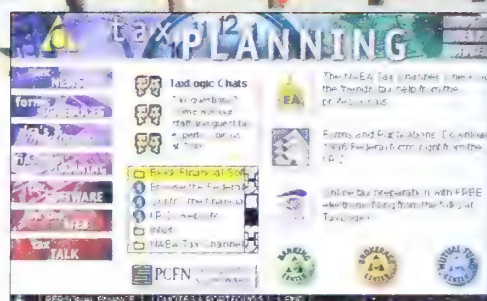
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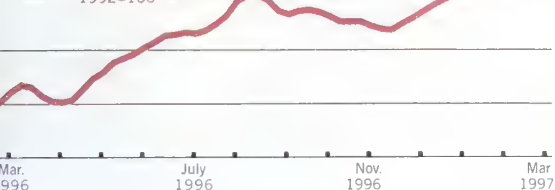
Business Week Index

PRODUCTION INDEX

Change from last week: 0.0%
Change from last year: 7.7%

PRODUCTION INDEX

Mar. 1=135.8
1992=100



The production index held steady during the week ended Mar. 1. Before calculation of the four-week moving average, the index dropped to 135.4 from 136.7 in the previous week. In the latest week, the seasonally adjusted levels of auto and truck production fell, as did rail-freight traffic and crude-oil refining. Output of both coal and lumber also declined. Steel production rose, as did electric power output. For the first time, the index dipped to 135.8 from 136.2 in January, mainly reflecting unusually warm weather, which depressed electric power output.

Source: Bureau of Economic Analysis. Index compiled 1997 by The McGraw-Hill Companies.

PRICING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
PRICES (3/7) S&P 500	804.97	790.82	24.0
RATE BOND YIELD, Aaa (3/7)	7.47%	7.38%	3.6
INDUSTRIAL MATERIALS PRICES (3/7)	108.2	108.4	-0.3
COMPANY FAILURES (2/28)	NA	NA	NA
STATE LOANS (2/26) billions	NA	NA	NA
SUPPLY, M2 (2/24) billions	\$3,869.3	\$3,868.2r	4.7
CLAIMS, UNEMPLOYMENT (3/1) thous	310	316	-14.4

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (Index: 1990=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept.

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
MONEY MARKET FUNDS (3/11)	5.21%	5.16%	5.25%
COMMERCIAL PAPER (3/12) 3-month	5.46	5.46	5.34
CERTIFICATES OF DEPOSIT (3/12) 3-month	5.44	5.43	5.30
MORTGAGE (3/7) 30-year	7.97	7.86	7.63
FIXED RATE MORTGAGE (3/7) one-year	5.78	5.73	5.48
LIBOR (3/7)	8.25	8.25	8.25

Sources: Federal Reserve, HSH Associates, Bloomberg Financial Markets

Data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

HOUSING STARTS

Thursday, Mar. 18, 8:30 a.m. EST ▶ Housing starts for February are expected to have risen at an annual rate of 1.42 million, according to a survey of forecasts compiled by the National Association of Home Builders, a unit of The McGraw-Hill Companies. January starts had risen to 1.35 million after plunging 11% in December. Building conditions remain favorable, and a rebound in January starts was especially notable in the important single-family sector.

COMMODITY PRICE INDEX

Friday, Mar. 19, 8:30 a.m. EST ▶ The commodity price index for February is expected to have risen by a tame 0.2% for the month. The total index and the core index,

which excludes energy and food, according to the MMS survey. Both the total and core indexes had risen a scant 0.1% in January. The overall index should remain in check in coming months, since oil prices have fallen \$5 per barrel since the beginning of the year, but analysts will keep a close eye on the core index for any sign that rising labor costs are putting pressure on prices.

REAL EARNINGS

Wednesday, Mar. 19, 10 a.m. EST ▶ The inflation-adjusted weekly pay of production workers is expected to have risen sharply in February, reflecting the month's 2.6% jump in average weekly earnings and the expected 0.2% rise in the CPI.

TRADE BALANCE

Thursday, Mar. 20, 8:30 a.m. EST ▶ The U.S. trade deficit in goods and services is expected to have remained at \$10 billion in January, says the MMS poll, about even with \$10.3 billion in December. Analysts expect both exports and imports to edge up.

FEDERAL BUDGET

Friday, Mar. 21, 2 p.m. EST ▶ The Treasury Dept. is expected to report a February budget deficit of \$45.5 billion, compared with \$44.3 billion in February, 1996. So far this fiscal year, the deficit is ahead of last year's total, but last year's deficit at this time was held down by the budget impasse in Congress and the government shutdown.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (3/8) thous. of net tons	2,138	2,115#	2.0
AUTOS (3/8) units	129,919	134,799r#	12.7
TRUCKS (3/8) units	139,114	138,740r#	8.7
ELECTRIC POWER (3/8) millions of kilowatt-hrs.	60,388	61,225#	-2.7
CRUDE-OIL REFINING (3/8) thous. of bbl./day	13,578	13,391#	-0.5
COAL (3/1) thous. of net tons	21,245#	21,269	-0.7
LUMBER (3/1) millions of ft.	482.1#	498.8	9.5
RAIL FREIGHT (3/1) billions of ton-miles	27.6#	27.2	0.7

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPPI, SFFA, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (3/12) \$/troy oz.	351.400	354.500	-11.4
STEEL SCRAP (3/7) #1 heavy, \$/ton	139.50	146.00	0.4
COPPER (3/7) \$/lb.	118.5	117.0	-3.0
ALUMINUM (3/7) \$/lb	81.5	79.3	8.2
COTTON (3/8) strict low middling 1-1/16 in., \$/lb	71.65	71.38	-10.3
OIL (3/11) \$/bbl.	19.75	20.28	-3.5
CRB FOODSTUFFS (3/11) 1967=100	247.61	244.39	6.7
CRB RAW INDUSTRIALS (3/11) 1967=100	341.60	344.31	3.3

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (3/12)	122.43	121.43	105.34
GERMAN MARK (3/12)	1.70	1.71	1.47
BRITISH POUND (3/12)	1.60	1.61	1.52
FRENCH FRANC (3/12)	5.73	5.78	5.04
ITALIAN LIRA (3/12)	1693.0	1703.8	1564.8
CANADIAN DOLLAR (3/12)	1.36	1.37	1.37
MEXICAN PESO (3/12)	7.975	8.040	7.590
TRADE-WEIGHTED DOLLAR INDEX (3/12)	104.8	104.8	96.62

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

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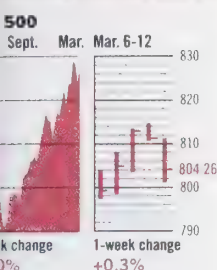
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Zenith Electronics (ZE)

Business Week (ISSN 0007-7135) published weekly, except for one issue in Jan. The McGraw-Hill Companies, Inc. Executive, Editorial, Circulation, and Advertising Offices: Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$49.95/year, Canada \$69.95/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement 246484. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J.

Investment Figures of the Week

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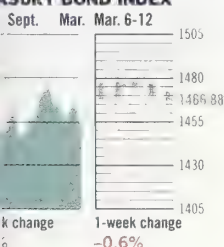


ENTARY

e a 45-point pullback on 2, the Dow Jones indus-
posted an impressive gain
the week. Big stocks con-
to dominate the action.
e year so far, the Stan-
k Poor's 500-stock index,
d measure of large-cap
nance, has risen 8.6%,
the S&P SmallCap 600 has
aged to eke out only a 1%
Gold stocks have been
ng investor interest as
rs in that sector seem
The best-performing mu-
nds over the past month,
own on this page, have
the gold funds.

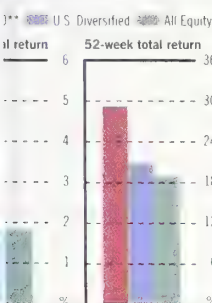
REST RATES

ASURY BOND INDEX



Bloomberg Financial Markets

UAL FUNDS



orningstar, Inc.

as of market close Wednesday, Mar. 12, 1997, unless otherwise indicated. Industry
de S&P 500 companies only. Fundamentals, technical indicators, Bloomberg mon-

U.S. MARKETS	Latest	% change Week	Year
Dow Jones Industrials	7039.4	1.3	26.1
NASDAQ Combined Composite	1304.1	-2.0	21.5
S&P MidCap 400	266.0	0.2	18.2
S&P SmallCap 600	146.9	0.5	19.3
S&P SuperComposite 1500	172.3	0.3	25.1

SECTORS	Latest	% change Week	Year
Bloomberg Information Age	237.0	-2.8	21.5
S&P Financials	95.2	1.4	49.3
S&P Utilities	194.2	-1.7	3.6
PSE Technology	256.4	-2.4	26.8

FOREIGN MARKETS	Latest	% change Week	Year
London (FT-SE 100)	4422.5	1.4	21.5
Frankfurt (DAX)	3415.4	1.5	40.2
Tokyo (NIKKEI 225)	18183.3	-0.5	-8.9
Hong Kong (Hang Seng)	13119.1	-2.2	23.7
Toronto (TSE 300)	6257.2	0.9	26.8
Mexico City (IPC)	3758.1	-0.1	33.3

FUNDAMENTALS	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.81%	1.85%	2.19%
S&P 500 P/E Ratio (Last 12 mos.)	21.4	21.0	18.6
S&P 500 P/E Ratio (Next 12 mos.)*	17.1	16.6	NA
First Call Earnings Revision*	-0.93%	-1.69%	NA

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day average	712.0	708.7	Positive
Stocks above 200-day average	72.0%	70.0%	Negative
Options: Put/call ratio	0.62	0.63	Neutral
Insiders: Vickers Sell/buy ratio	1.78	1.85	Positive

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS	Last month%	Last 12 months%
Savings & Loans	16.2	Semiconductors 89.0
HMOs	15.0	Oil & Gas Drilling 80.7
Genl. Merchandise Chains	12.7	Savings & Loans 73.9
Tobacco	12.2	Shoes 70.6
Aluminum	10.2	Invest. Banking/Bkrgr. 62.5

WORST-PERFORMING GROUPS	Last month%	Last 12 months%
Engineering & Constr.	-10.7	Machine Tools -24.4
Communications Equip.	-8.7	Broadcasting -15.7
Defense Electronics	-8.3	Trucking -15.4
Shoes	-6.0	Gold Mining -15.2
Long-Dist. Telecomm.	-5.9	Steel -13.9

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness

	Price	1-month change
General Electric	105 1/8	-3/4
Applied Materials	51 3/8	-1/2
Exxon	102 3/4	-1/4
Bell Atlantic	67 1/8	-4
Merck	93 7/8	-2
Motorola	57 7/8	-5 7/8

Decline ahead? Stocks with most significant selling on price strength

	Price	1-month change
U.S. Robotics	59 1/2	5/8
Amgen	61 1/4	5 3/4
Dell Computer	71 7/8	4 15/16
Unilever NV	189 3/4	11 3/8
Travelers Group	56 7/8	5/8
Pfizer	95 7/8	2

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	Last week	30-yr. bond Latest week	Last week
GENERAL OBLIGATIONS	4.89%	4.87%	5.49%	5.47%
PERCENT OF TREASURIES	74.03	74.13	79.79	80.14
TAXABLE EQUIVALENT	7.09	7.06	7.96	7.93
INSURED REVENUE BONDS	5.00	4.97	5.72	5.69
PERCENT OF TREASURIES	75.70	75.68	83.13	83.37
TAXABLE EQUIVALENT	7.25	7.20	8.29	8.25

EQUITY FUNDS

Leaders	Laggards
Four-week total return %	Four-week total return %
Pioneer Gold B 12.4	Amerindo Technology D -14.0
Cappiello-Rush Gold 12.1	Calvert Strat. Growth C -13.2
Midas 11.4	Van Wagoner Post-Venture -9.3
United Svcs. World Gold 11.4	Matthews Korea -8.8
Monitrend Gold 11.0	Van Wagoner Emerging Gr. -8.6

Leaders	Laggards
52-week total return %	52-week total return %
Vontobel Eastern Europ. Eq. 68.9	Steadman Technology Grth. -36.5
State St. Res. Glob. Res. A 65.0	United Svcs. Gold Shares -34.2
Morgan Stan. Inst. Lat. Am. A 63.7	DFA Japanese Small Co. -32.3
Morgan Stan. Lat. Am. A 62.4	Fidelity Japan Small Co. -31.4
Interactive Inv. Tech Value 56.0	Matthews Korea -30.9

EQUITY FUND CATEGORIES

Leaders	Laggards
Four-week total return %	Four-week total return %
Precious Metals 9.3	Technology -2.1
Financial 5.2	Small-cap Growth -1.8
Latin America 4.4	Japan -0.4
Real Estate 3.5	Pacific ex-Japan -0.4
Unaligned 3.2	Communications -0.3

Leaders	Laggards
52-week total return %	52-week total return %
Financial 42.3	Japan -14.8
Latin America 41.6	Precious Metals -6.7
Real Estate 37.7	Diversified Pacific 3.3
Europe 26.7	Communications 8.2
Natural Resources 25.2	Small-cap Growth 8.8

ey flow analysis, and mutual fund returns are as of Mar. 11. For a more detailed explanation, write
to us or E-mail figures@businessweek.com. NA=Not available **Vanguard Index 500 Fund

DON'T BLOW THIS CHANCE, WASHINGTON

When the history of the 105th Congress is written, it will likely record that an ambitious onetime actor, Senator Fred Thompson (R-Tenn.), and a small group of moderate GOP senators preserved the integrity of their party and the institution in which they serve. But just barely, and just before the public's contempt for the money-politics scandal engulfing Washington turned to complete revulsion—and perhaps a dangerous backlash. Under heavy pressure from the moderates, Senate Majority Leader Trent Lott (R-Miss.), reversed position. He will now allow Thompson to conduct a broad probe of both illegal and improper campaign fund-raising practices, including “soft” money contributions. This provides a final opportunity for politicians to redeem themselves in the eyes of the people. Both Democrats and Republicans should take it.

But exposing wrongdoing must be followed by serious reform. What is most egregious about the current campaign-finance system is not what is illegal, but rather what is legal. The ability to raise unlimited amounts of money from parties with particular agendas—ostensibly for party-building activities but mostly for supporting candidates—has turned the White House and Congress into a favor-selling bazaar. Access is the key resource to be sold—access to the President, to Democratic and Republican party leaders, and to top committee chairmen in the House and Senate who write the laws and regulations governing America. Monied interests trump voters in this game. And both legislators and Presidents must spend much of their day currying favor with possible contributors instead of attending to the nation's business.

This has got to stop once and for all. Polls show that the public holds both Republicans and Democrats responsible for playing this corrupting campaign-finance game. Thompson's investigation is bound to confirm this view. The excesses of the 1996 election are the best opportunity to clean up the electoral system—and bring back voters who have increasingly boycotted it. The first step is a full and fair hearing of what happened in the past election. The next step must be action and campaign-finance reform.

THE FTC'S AIM WAS TRUE THIS TIME

The Federal Trade Commission's surprise decision to block Staples Inc.'s \$4.4 billion acquisition of Office Depot Inc. is part of a strategy designed to keep the new superstore retail market competitive. The FTC had been trying to modify the deal so that Staples sold off stores in markets it would monopolize after acquiring Office Depot to rival OfficeMax. Odds are the FTC decision, in the end, will produce just such a deal.

The FTC traditionally viewed retailing broadly, as an ultracom-

petitive business with many small and large stores, where savvy shoppers forsook brand or store loyalty for the best bargain. It was therefore reluctant to take action against any merger.

But the FTC argued that customers don't view other kinds of stores—such as local stationers, mail order, or even general stores—such as Wal-Mart—as substitutes for Staples and Office Depot. Its analysis shows that when local Staples raise prices, customers drive to competing office-supply perstores—either Office Depot or Office Max—and not other alternatives. The result, says the FTC: Prices at Staples are lower in markets where Office Depot and OfficeMax compete with them and higher where they don't.

Ninety-nine percent of all proposed mergers go through without a hitch in the U.S. When there are problems, as in the recent Ciba-Geigy and Sandoz deal or the Baxter International and Immuno International agreement, the FTC has a duty to modify them to preserve market competition. This is the proper role for the regulatory agency to play. The FTC can act as a watchdog without being an obstacle.

RELEARNING HOW TO GROW

Six years into the economic expansion, Corporate America is still turning out an excellent performance. The old school of an aging business cycle—inventory accumulation, wage inflation, and balance-sheet weakness—are nowhere to be seen. Profits are healthy. Revenues are up. And most shareholders are happy. The globalization of markets and the Information Revolution can take plenty of credit for the healthy economy. But corporations, and the people who run them, should take a bow as well. They chose growth as a dominating strategy for this expansion. After years of playing defense by downsizing and restructuring, corporations have turned to offense to expand in the global arena.

Companies are choosing a variety of tactics to grow. Many, innovation and product development are the path to top-line revenue and earnings growth. Other companies are shifting to extreme decentralization to generate entrepreneurialism in their ranks. Others still are spending heavily on research and development.

Many CEOs are bulking up their companies through acquisitions. Instead of the financially driven mergers of the 1980s, these deals focus on expanding core competencies and market shares, boosting market share to No. 1 or 2, and extending brand-name sales around the world. They make business sense.

To match this new reality, BUSINESS WEEK is launching a new ranking listing corporations by their performance. Using a variety of measures, the magazine grades the entire Standard & Poor's 500-stock index universe and chooses the top 50 Best Performers (page 79).

The companies that made it into the winners' circle are truly exceptional. They accomplish superior results in one of the strongest periods ever for corporate earnings. There is much to learn from their strategies and their managements.

A rare find only happens every
now and then.

We'd like to emphasize the now part.



often does a car come along that includes a power moonroof, an AM/FM stereo with CD player, alloy wheels, power windows and door locks, cruise control, wood-grain-style trim, leather-upped steering wheel, security system with remote entry, automatic transmission and air conditioning, all at the equally uncommon price of \$20,795? Well, "rarely" does come to mind.



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BusinessWeek

March 31, 1997

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THE NEW BUSINESS CYCLE

It used to be housing and autos. But the economic expansion of the 1990s has been fueled by the strong growth of the information technology industry.

BURLINGAME

MAR 21 1997

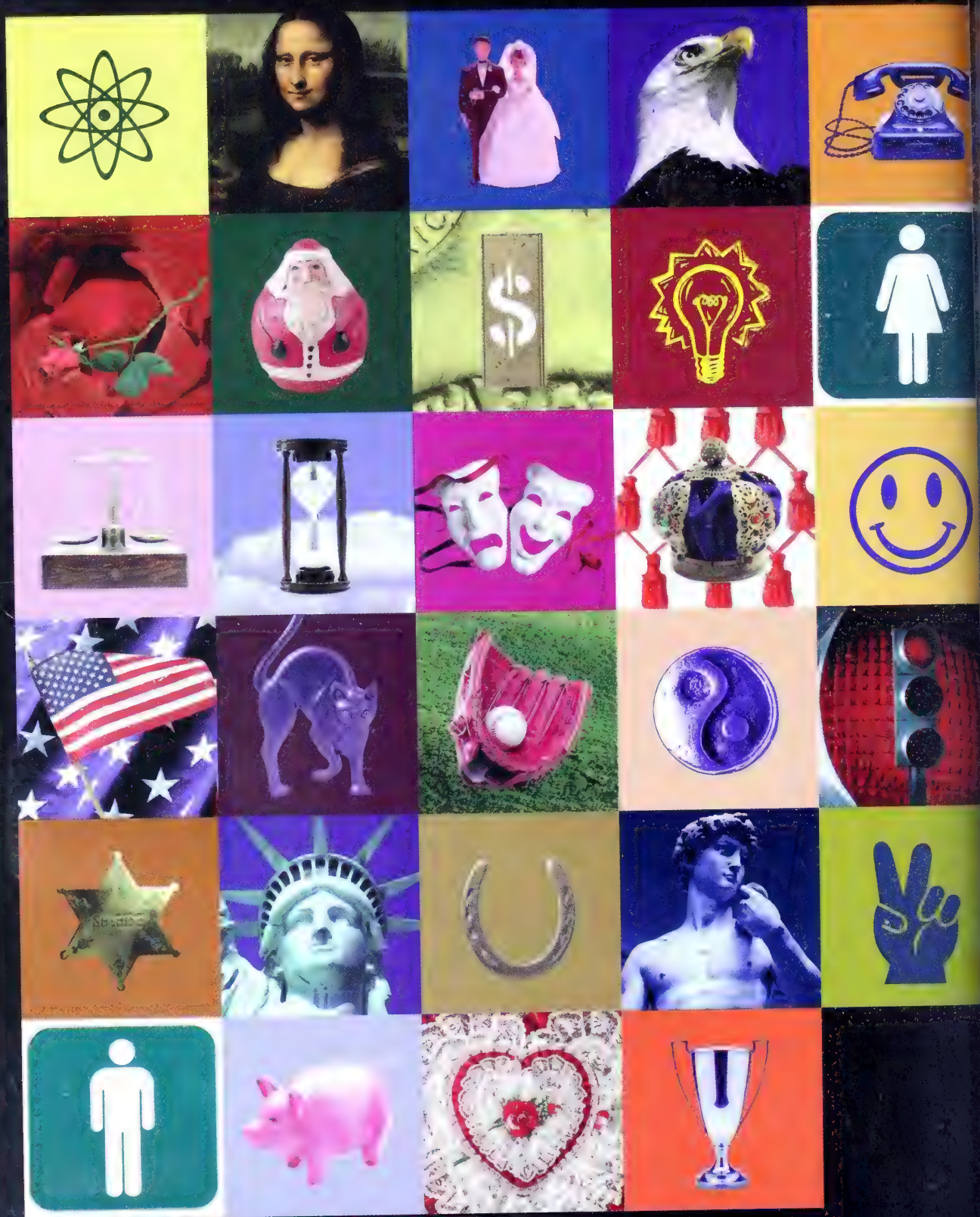
LIBRARY

There's a danger: A high-tech slowdown could drag down the economy—and the stock market.

BY MICHAEL J. MANDEL

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BusinessWeek

MARCH 31, 1997

THE NEW BUSINESS CYCLE

How to explain strong growth and low inflation? Call it the high-tech economy **page 58**

Cover Story

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Six years into the expansion of the '90s, and the economy is still growing smartly. Is the business cycle history? No. It's just that the old cyclical industries—like housing and autos—no longer carry the same weight. These days, the high-flying high-tech sector rules. But look out: There are troubling signs of a slowdown

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BUSINESS WEEK data show that it has raced ahead of the rest of the economy

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It's a new ball game, Mr. Greenspan
The corrosive power of money politics

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Up Front

EDITED BY LARRY LIGHT

SILICON SAGAS

GATES: A NEW BEST FRIEND?

HEWLETT-PACKARD MAY be elbowing aside Digital Equipment Corp. to be Bill Gates' best networking buddy. At stake is the lead role in making Microsoft's Windows NT software the favorite for backoffice operations. In 1995, Digital CEO Robert Palmer got the inside track via a deal to install and service NT software for corporations. For DEC (and now for HP), the service deal allows entree for follow-on hardware sales. Up to \$5 billion of DEC's yearly sales—one-third of revenue—is from Microsoft work.

HP announced on Mar. 19 a wide-ranging pact with Gates that some analysts say overshadows Microsoft's with Digital. As well as installing and servicing NT software, HP, for instance, will help Microsoft adapt HP's OpenView network management software to run with NT. To Mark Specker, a Soundview Financial analyst, Digital hurt itself with Microsoft by pushing its Alpha chip when customers preferred Intel-based machines for NT.



GOOD OLD DAYS with Palmer

Although HP execs are crowing, Digital Veep Robert Bismuth says the Microsoft deal isn't as far-reaching as it seems. Digital, he says, will keep its lead because of the "stellar job" it does for Microsoft. At the HP news conference, Gates called the HP link "a broader relationship" than Microsoft has ever had before, but he deferred any comment on Digital. *Paul Judge and Peter Burrows*

LITIGATION NATION

TOBACCO'S NEW (DEAD) POSTER BOY

ADD THE "DENG DEFENSE" to the tobacco industry's arsenal of arguments against an onslaught of lawsuits. Big Tobacco recently unveiled the defense during a pretrial session in a Florida case.

TALK SHOW "It is nasty and brutish without being short."

—Anthony Lake on the Senate confirmation process, after giving up his quest to be CIA chief

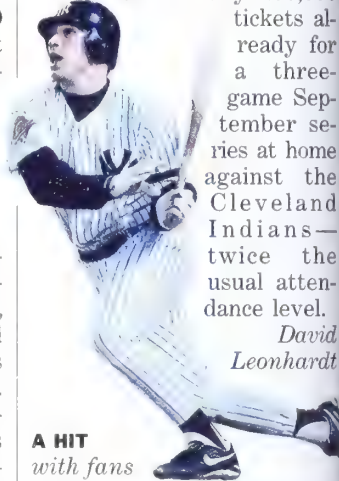
BALLPARK FIGURES

A SUBWAY SERIES IN EVERY TOWN

MAJOR LEAGUE BASEBALL may be emerging from its slump. After two poor years, ticket sales are projected to rise by 8.8% in 1997, to 65 million, based on early returns from the 28 teams. That's still less than the 70 million sold in 1993, the last full season before the eight-month players' strike. But analysts say the labor pact signed last fall, virtually guaranteeing an uninterrupted season, is apparently bringing fans back.

Another key factor is interleague play, a big marketing coup. For the first time, American League clubs will face National League teams during the regular season. This allows for regional rivalries that only a World Series could previously accommodate. Example: the Los An-

geles Dodgers vs. the Anaheim Angels. In nearly every big-league city, interleague games are selling much faster than others. The Pittsburgh Pirates, for example, have sold nearly 100,000



A HIT with fans again

tickets already for a three-game September series at home against the Cleveland Indians—twice the usual attendance level.

David Leonhardt

The gist: Smoking can't be so bad if such lifelong smokers as Deng Xiaoping can live so long. The vast majority of smokers escape harm, the industry says.

In the Miami session, tobacco lawyer Theodore Grossman produced a photograph of the elderly Deng holding a lit



Panda cigarette. He painstakingly quizzed Dr. Alan Feingold, an expert witness for the anti-tobacco forces, on

DENG: Long-lived

how Deng could make it to 92. Feingold replied he knew little about Deng's actual smoking or how he died. Beijing says Deng died on Feb. 19 of Parkinson's disease and related complications—with no mention of lung cancer or heart problems, both commonly linked to cigarettes.

The lawyer also pointed to Nobel laureate Howard Temin, a nonsmoker who died at 59 of lung cancer even though he would leave a room if someone smoked. Norwood Wilner, an antiweed attorney, doubts that the Deng tactic will succeed. Unlike the venerable leader, he says, "many of our clients died early." *David Greising*

THE LIST OSCAR HAS NO RESPECT FOR MONEY



TOM CRUISE as Jerry

Hollywood lately has leaned toward nominating small films for Best Picture. For 1996, three of the five nominees each made \$30 million or less. They earned less than any group of Best Pic nominees

since 1984, when Exhibitor Relations began keeping ticket stats. In the '90s, the only top earner to win the Oscar was *Forrest Gump*.

BEST PICTURE NOMINEES AND THEIR BOX OFFICE

YEAR	TOP GROSSING NOMINEE*	ALL 5 NOMINEES
1990	\$216 GHOST	\$499
1991	119 BEAUTY AND THE BEAST	430
1992	131 A FEW GOOD MEN	316
1993	184 THE FUGITIVE	307
1994	309 FORREST GUMP	502
1995	172 APOLLO 13	352
1996	141 JERRY MAGUIRE	266

Ticket revenue, one week before Academy Awards.

*In millions of dollars

DATA: EXHIBITOR RELATIONS CO



GLOBAL VILLAGE EST. 1997

A phrase said to be the invention of Marshall McLuhan back in the 60s. A concept looking for an implementor.

A notion that needed vision, of course, but also some down-to-earth things apparent even to the nearsighted.

Such as capital and a network big enough to bring all the existing villages together. Such as the vision to have invested early in the Internet. Such as the commitment to embrace competition and break up monopolies local and global.

The promise of the creation of Concert plc, from the union of MCI and BT is nothing less than the first communications company for the world. And the official gate-opening of a village the size of a planet.

Up Front

AFTERLIVES

A QUIET PHILANTHROPIST MAKES A SPLASH



SHY: Chambers in the 1980s

REMEMBER RAY CHAMBERS? Back in the early 1980s, he made a fortune with former Treasury Secretary William Simon in the LBO biz. Now, he's Mr. Volunteerism. Chambers, 54, is the sparkplug for the Presidents' Summit for America's Future, an Apr. 27-29 conclave in Philadelphia that will push volunteerism to help young people.

The spotlight-shy Chambers, who says he has no title in the event, enlisted Colin

Powell to chair it. Bill Clinton and two ex-Presidents are to attend. The summit has attracted donations of goods and services from 80 nonprofits and companies—such as LensCrafters, which is giving vision care to 1 million of the needy. Chambers downplays his heavy involvement organizing the event, saying the summit actually was the idea of a friend, the late Michigan Governor George Romney. After the summit, Chambers will stay involved with the organization that will oversee the donations.

Since he and Simon split 10 years ago, Chambers has been a low-key philanthropist, quietly helping pay the college tabs for hundreds of disadvantaged kids from his native Newark, N.J. Chambers' Points of Light Foundation, inspired by a 1988 George Bush speech, provides guidance to volunteer organizations. □

RANKING THE BIG 10 SEARCH FIRMS

TOP THIRTY BY 1996 REVENUES	
Firm	U.S. Sales (millions)
Korn/Ferry	\$126
Heidrick & Struggles	118
SpencerStuart	90

TOP THIRTY BY 1996 GROWTH	
Firm	1995-96 annual change
Ward Howell	43%
DHR	36
Lamalie Amrop	32

DATA: HUNT-SCANLON PUBLISHING CO.

STAR SEARCH

YEAR OF THE HEADHUNTER

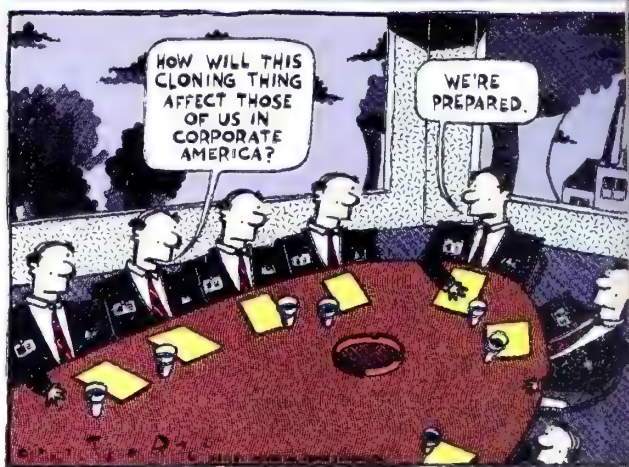
THE STOCK MARKET WASN'T alone in having a great 1996. It was a banner year for executive-search firms, too. Just look at the annual rankings of the top 25 executive re-

cruiting companies prepared by Hunt-Scanlon Publishing.

Combined revenues of 1996's 10 largest U.S. search firms rose 25%, to a new high of \$599 million. All 10 reported double-digit annual growth, ranging from 43% (No. 8-ranked Ward Howell) to 13% (No. 4, Russell Reynolds).

What's behind the industry's spurt? Following the early-1990s restructurings, companies are hiring lots of managerial talent. And many large, generalist firms have created specialty practices to compete in new market niches. Example: Heidrick & Struggles for information technology. Also, some firms have increased market share by getting guarantees for a certain amount of searches annually. Korn/Ferry has such deals with Coca-Cola and Viacom. *Lisa Sanders*

DRAWN & QUARTERED



SPORTS BIZ

SKYBOXES ON THE GREENS

THERE ARE PLUSH SKYBOXES for football, baseball, and basketball. Why not for golf? So oil man and golf buff Jack Vickers has launched GolfWatch, which lets the well-heeled watch tournaments close up without mingling with the rabble.

For \$1,500, patrons get to sit in a half-dozen pavilions—with food, drink, and TV monitors—that far outdo 18th-hole corporate tents. Usually elevated, pavilions overlook greens and tees. Roped-off lanes let patrons walk from one hole to the next in private.

Vickers calls the first GolfWatch event, at the Feb. 26 Nissan Open in Los Ange-

les, a big success. All 1,000 places sold. The other GolfWatch events this year include the Buick Classic in Rye, N.Y., and the Sprint International in Castle Rock, Colo. Vickers, who has an exclusive deal with the Professional Golfers Assn. Tour, hopes to expand to 25 events by 2000. Some



GOLFWATCH: Above it all

PGA tournament head though, worry that it's elitist. Says Cliff Danley of Fort Lauderdale's Honda Classic, "We don't want to alienate our fans."

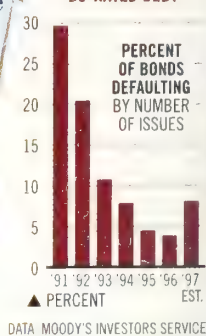
THE BIG PICTURE

TROUBLE AHEAD FOR JUNK?

With today's strong economy, junk bond defaults have been on the wane. So the spread between the most speculative paper's median yield and comparable Treasuries' is the tightest ever, 2.64 percentage points. But Moody's figures the economy can't keep up its current pace and a coming slowdown will spur defaults.



ONE-YEAR
DEFAULT RATE ON
COMPANIES WITH
B3-RATED DEBT



DATA: MOODY'S INVESTORS SERVICE

FOOTNOTES Average middle-management salaries: highest, San Jose, Calif., \$59,800; lowest, Brownsville, Tex., \$40,450

Was it a

*childhood
dream?*



or was it the miles?

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Inbox



Calendar



Journal



Tasks



	From	Subject
	Carrie Cameron	New Task
	Gretchen Almy Alert: Because of a Mr. Zagula, the pre now be presenting Carrie Cameron	New Task Request
		AutoPreview

Contacts



Microsoft Office 97/now/
it's going to be rea
to stay disorganized



Address Book



Plan a Meeting

Jae

jae@wk.com

kimlil@wk.com

Matt

mattr@wk.com

10 am

☀ Production Meeting (5th floor conf)

11 00

☀ "where we are headed" meeting (my office)

12 pm

☀ Lunch with client (TBD)

1 00

Meeting with Lori Newman



ly, really hard

Some people are inclined to neatly arrange, file, cross-reference and deploy strategic bits of information, like what's-his-name, the guy who sent you the e-mail about the thing on Tuesday...or Wednesday. Well, here's good news for the highly with-it and the chronically disorganized alike: the new Microsoft Outlook 97 desktop information manager. It's part of new Microsoft Office 97, and it's here to help you get organized (or, as the case may be, way more organized). Outlook puts your complex electronic scheduling, to-do, do and contacts one cozy interface. It helps you do smart things, like preview the first three lines of your e-mails to quickly separate news from junk. And you can easily store, link and reuse information. for instance, drag an e-mail into the contacts icon and a new contact file is automatically created for you. Now, that's functionality. Want to know more? Block out a little time to visit our Web site.

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HOPES AND HAZARDS OF THE BIOTECH CENTURY

I would like to add one observation to your fine article on "The Biotech Century" (Special Report, Mar. 10). The essential feature of the biotech revolution is that it is converting medicine from an empirical guessing game into a bona fide science. Every technical field goes through this transition. When it does, advances occur at an unimaginable pace. The critical moment comes when a scientific area goes from trial-and-error to prediction based on knowledge of the inner mechanisms and principles at work. We are now on that threshold in the medical field.

Charles J. Bodenshtab
Excelsior, Minn.

The possibility of cloning the human species raises grave concerns. Will there be anybody to control or regulate the outcomes of such research in order to avoid unpredictable catastrophes? Or

CORRECTIONS & CLARIFICATIONS

In "Does this Galvin have the right stuff?" (People, Mar. 17), Motorola Inc.'s president and chief operating officer is misidentified in a photo caption. His name is Robert L. Growney.

"The Baldrige's other reward" (Developments to Watch, Mar. 10) wrongly described the source of a study. It was the National Institute of Standards & Technology.

many of the horrific failures associated with genetic-engineering and cloning, and it glossed over the complex ethical issues involved in tampering with life.

This "revolution brewing in the lab" has already produced its share of problems. Most Americans are wary of genetically engineered products and cloned animals. There should be an immediate moratorium on the cloning of animals—including the splicing of human genes into animals—pending a full public debate on the ethical and environmental consequences of this new and troubling technology. And there must be a complete ban on the cloning of human beings. Any other policy is irresponsible and potentially dangerous.

Ronnie Cummins
National Director
Pure Food Campaign
Washington



ON THE THRESHOLD

"The essential feature of the biotech revolution is that it is converting medicine from an empirical guessing game into a bona fide science"

Joseph K. Chemplavil
Hampton, Va.

will it even be possible, considering our experience trying to regulate nuclear proliferation or cyberspace? The consequences of human cloning will certainly be much worse than the problems we encounter with computer hacking or virus infestation. Our experience in cyberspace should give us an indication of the possibilities and the problems associated with human cloning.

BUSINESS WEEK's complete embrace of the "Biotech Century" conveniently ignored

WHAT'S RIGHT AT THE EXPORT-IMPORT BANK

"The Ex-Im Bank: Caught in the swirl of Donorgate" (International Business, Mar. 10) contained inaccuracies concerning the Export-Import Bank and its finances. Ex-Im's net income is not, as you reported, based on a reduction in reserves to cover future losses. The bank's portfolio is not becoming riskier—it was less risky at the end of fiscal 1996 than at the end of fiscal 1995.

The agency has not used accounting

Business Week

A Division of The McGraw-Hill Companies

MARCH 31, 1997 (ISSN 0007-7135)*** 3520
Published weekly, except for one issue in January, by The McGraw-Hill Companies, Inc., 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 217039; Intl. 2360127039. U.S. subscription rates: \$49.50 per year (2 issues: \$79.95); foreign: \$89.95. Single copies: \$5.00; back issues: \$5. Write for rates and other countries: subscription service: 1-800-655-1290. TDD: 1-800-554-4579.

Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08520. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246454

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Readers Report

gimmicks. Ex-Im Bank Director Maria L. Haley did not improperly push the staff to approve a questionable transaction. Maria Haley is a valued colleague, and I can state unequivocally that I have never known her to intervene inappropriately in the due consideration of any transactional or policy matters by the bank.

We carry out our market-driven mission by supporting financial transactions that often involve sophisticated credit judgments. This means that we are not able to hide the quality of our decision-making. Our processes have to be principled and transparent. The results of our decisions will necessarily speak for themselves. The facts (as reflected in our financial statements) show that both exporters and the taxpayers are well served.

Martin A. Kamarek
President and Chairman
Export-Import Bank of the U.S.
Washington

Having read BUSINESS WEEK's piece on the Export-Import Bank, I find it necessary to correct your assumptions about James A. Harmon's qualifications to run this agency.

I have known Jim Harmon for many years. He is a man of great intellect and integrity, and one who has an excellent grasp of international finance and world affairs. These are the credentials that make him ideal for this post. He is an extraordinarily talented and successful businessman. With the same determination and genius Mr. Harmon brings to his business enterprises, he has proved an immensely effective civic leader.

While it's a good thing to scrutinize the actions of our public officials, let us not become so cynical that we discourage experienced and honorable people from entering public service by overlooking obvious talent. Your article quotes a Senate aide stating that credibility was a major concern for this post. It seems to me that those in business, academia, government, and the civic arena clearly find Mr. Harmon credible and a credit to our nation.

David N. Dinkins
Professor in the Practice
of Public Affairs
Columbia University
New York

Editor's note: James Harmon was a fund-raiser and financial adviser for former New York Mayor David Dinkins.

INFO TECH: NOT A GEEK GHETTO

Calling all editors! Please ask your writers to stop referring to information technology workers "nerds" and "geeks." ("Calling all nerds," News: Analysis & Commentary, Mar. 10).

This media image contributes to the scarcity of entrants into this important industry. Another false image is that we need only those who are good at math. We need all kinds of people who are creative, think clearly, and communicate well: analysts, graphic artists, customer support staff, sales people, and, yes, writers and editors.

A liberal arts background is great! There are enormous challenges and opportunities in information technology. It is also fun! So tell your kids (and writers), this is where it's at.

Peter A. Cunningham
President
INPUT
Mountain View, Calif.

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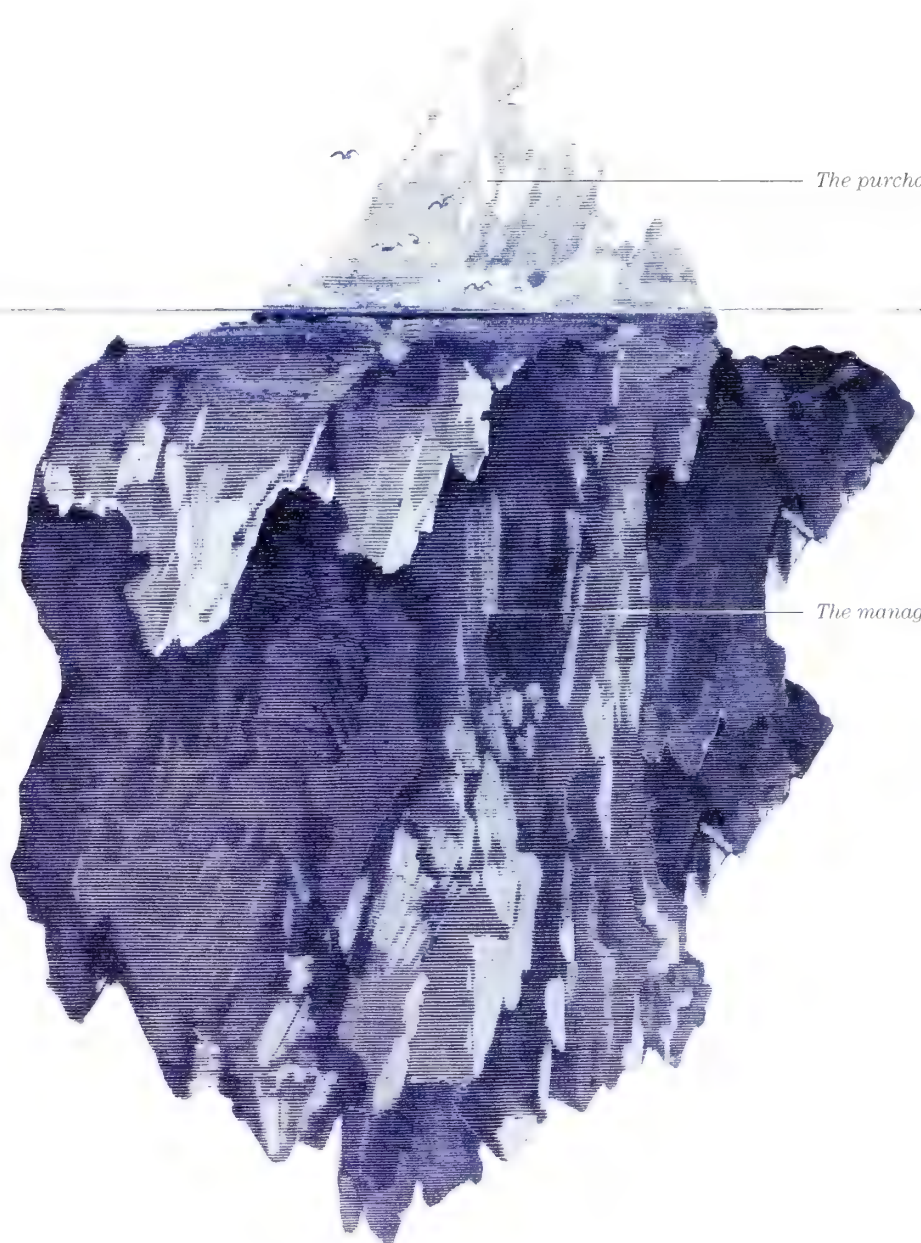
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remotely, monitor every PC in your network, troubleshoot
problems and, in general, minimize costs. The iceberg
will still be out there, of course. But it won't be one
you'll founder on. www.hp.com/go/vectracommercial

Better products, better productivity.



BY STEPHEN H. WILDSTROM

A PUMPED-UP POWERBOOK

The 3400 fills a big gap in Apple's laptop lineup and restores some of its luster

Apple Computer, bouncing from crisis to crisis, hasn't given its fans much except bad news lately. But the legions of Mac maniacs finally have something to cheer about. With its well-designed and superfast new laptop, the PowerBook 3400, Apple has reminded the computing world of the technology leader it once was and perhaps can become again.

On a more mundane level, the 3400 solves a critical problem for Apple and its customers. Leading-edge products for a mobile lifestyle have been a gaping hole in the Mac product line. The new PowerBook should slow the defection of laptop-starved customers to Windows.

Apple's recent notebook efforts have been a disaster. The PowerBook 5300 series, which hit the market months late in 1995, was the first to use the PowerPC processor. But it lacked an internal CD-ROM drive, featured a battery that had a tendency to burst into flames while charging, and included cover hinges that cracked after a few months of use. Not surprisingly, about the only folks who bought the 5300 were people who desperately needed a Mac notebook, and even they did it unhappily.

BRIGHT AND SHARP. Late last year, Apple provided some relief with the competent but unexciting 1400 series. Its price tag alone, as low as \$2,500, made it attractive.

The 3400, starting at \$4,500, is something else. The base model is built around a 180 megahertz PowerPC chip. Although Apple vs. Windows performance comparisons are difficult, the 200 Mhz PowerBook that I tested felt faster than any Pentium notebook and probably is fair competition for a 200 Mhz Pentium desktop. Next month, Apple will ship a blazing 240 Mhz model.

There's more to the 3400 than raw speed. Industrial design has long been an Apple strong point, and the new PowerBook marks a return to the elegance that has been missing from recent Mac notebooks. The sculptured case is handsome where most laptops are purely utilitarian. It's marred only by a flimsy door that covers ports at the back for printers and other devices. The door tends to fall off whenever it is opened—a common problem on laptops. The main hinges that were so troublesome on the 5300 seem well-designed, though only time will tell.

The 12.1-inch active matrix display is bright and very sharp. And the keyboard is about as good as a notebook can get. Because Mac users don't depend on cursor-movement keys, such as PageUp and PageDown, Apple can simply leave them off the PowerBook keyboard. This leaves room for full-size, comfortably spaced keys; only the rarely used F1 to F12 keys are half-size.

The 3400 takes good ad-

vantage of the PowerPC, which draws less power and runs cooler than an equivalent Pentium. This is the first laptop I've actually been able to keep on my lap for extended periods without it becoming downright hot. And it gets 2½ hours or more off a battery charge, good for a fast unit these days.

About the only serious fault I can find in the hardware is the lack of a docking station that the PowerBook could slip into for desktop



The New PowerBook 3400

PROCESSOR PowerPC 603e, 180MHz–240 Mhz

RAM 16 MB standard/144 MB tops

HARD DRIVE 1.3 or 2 GB

CD-ROM 6X or 12X

DISPLAY 12.1" active matrix

SIZE 2.4x11.5x9.5 in.; 7.2 lb.

MODEM AND NETWORK connection built in

PRICE \$4,500–\$6,500

DATA APPLE COMPUTER INC

use with a bigger monitor or keyboard and a network connection. Although partially mitigated by a built-in Ethernet network connection and that good keyboard, the lack of a way to attach to a printer and other desktop accessories with a single connection is a nuisance.

If only the software were up to the hardware. The Mac operating system may still have the simplest and most intuitive desktop screen of any system. But even in its new System 7.6 incarnation, the software is showing its age badly. The biggest problem is the lack of multi-threading, a feature that lets Windows do several things at once. For example, while waiting the several minutes it can take for a complex image to appear in Adobe Systems PhotoShop, it might be nice to check your E-mail or play a game of solitaire. The Mac won't let you, at least not until a new version promised for later this year shows up.

LOW PRIORITY. Application software is an even bigger problem. Except in such Mac-centric realms as desktop publishing and image editing, the Mac has become a low

priority for most software publishers. Many programs, especially business-oriented ones, are Windows only. If Mac versions come, they hit the shelves months later. Microsoft Word and Excel for the Mac, for example, are two major versions behind their Windows counterparts, though Microsoft promises a Mac edition of Office 97 by fall.

In the movie *Independence Day*, Jeff Goldblum uses his trusty PowerBook to save the world from alien invaders. By itself, the 3400 isn't going to save Apple from the company's deep-seated problems. But it serves as a welcome reminder that there's some creative life left in the company whose inventiveness played such a large role in the creation of the personal computer.

QUESTIONS? COMMENTS? E-mail tech&you@businessweek.com or fax (202) 383-2125

DEADLY FEASTS
 Tracking the Secrets of a Terrifying New Plague
 Richard Rhodes
 Simon & Schuster • 250pp • \$24

A MAD-COW THRILLER WITH A DOSE OF PARANOIA

Sometimes it seems a miracle that humanity survives at all, let alone that people are living longer and healthier lives. Every month brings warnings of dire new threats. Estrogen-mimicking chemicals are said to be aiding sperm counts plunging. An epidemic of cancer has been caused by pesticides, power lines, and food additives. And the combination of changing climates and growing populations may unleash other horrors like the Ebola virus, sending a swath of death around the planet. Unless we die of hype first.

Now, Richard Rhodes, the Pulitzer Prize-winning chronicler of yesterday's ominous threats, nuclear bombs, leaps to the fray. In *Deadly Feasts*, Rhodes uses "the terrifying specter of an indelible, untreatable, irreversibly fatal disease whose spread is stealthy and insidious and...unstoppable," according to a publisher's blurb. The normally restrained Rhodes warns that "nothing at you are about to read is fiction." To set the mood, he opens with a description of a New Guinea cannibal feast: "But came the dark red heart gory with dripping blood. Out came the looping coils of intestines, dully shining."

So what is this terrible new plague? One other than mad-cow disease and a family of similar ailments. Recent deaths in Britain have raised legitimate fears of a human epidemic caused by eating infected meat. That has touched off panic in Europe and has prompted the U.S. Food and Drug Administration to take new steps—proposing a ban on feeding sheep and cattle parts to other ruminant animals—to prevent the same thing from happening here. It's a hot topic. Indeed, *Deadly Feasts* has an unpolished feel, as if rushed to market before interest wanes—or before the FDA's action renders most of the U.S. fears moot.

Still, the story of how medical sleuths solved the mysteries of this family of

diseases is a compelling one, and Rhodes tells it adroitly. The tale reaches back hundreds of years, to when farmers first noticed sheep frantically scraping against walls and fences before dying. Hence their name for the disease: scrapie. But the story takes off in 1957, when American research physician Carlton D. Gajdusek arrived in New Guinea to study what he called "child growth and development in primitive cultures." There, he learned of a strange new disease, kuru, that was killing off one group of Stone Age tribespeople.

For years, Gajdusek and his fellow researchers were stumped. Kuru was always fatal. Yet victims' bodies never showed typical inflammatory reactions against disease. No drug had any effect. And no one could figure out how the plague was transmitted or why it mainly struck women and children.

A first clue came in 1959, when veterinary pathologist William J. Hadlow noticed that the spongy degeneration in the brains of sheep felled by scrapie matched the so-called spongiform pattern in kuru victims. Since researchers knew that scrapie could be transmitted by feeding infected brains to sheep, the implication was clear: Kuru was passed along when New Guinea women and children ritualistically ate their dead.

Gajdusek, however, wasn't convinced. He wanted first to prove that kuru could be experimentally transmitted from humans to chimps or monkeys. In one of several glimpses that Rhodes provides into the seamy side of science, Gajdusek responded to Hadlow's suggestion that such experiments be done by lying that they were already underway. In fact, they wouldn't start for

four more years. Gajdusek was clearly protecting his turf from interlopers. It worked. In 1976, he won a Nobel prize.

But tying kuru's spread to cannibalism was only part of the puzzle. Rhodes describes the long and often tragic history of another deadly spongiform human disease, Creutzfeldt-Jakob disease (CJD). And he recounts both the successful efforts to infect a wide range of animals with kuru, CJD, or scrapie, and the birth of Britain's mad-cow epidemic in the late 1980s. Yet these developments only deepened the central mystery: No one has yet found even a trace of a virus or bacterium. So what could be causing these spongiform diseases?

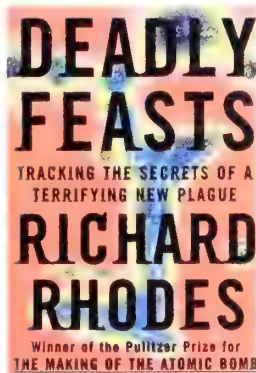
The leading candidate is a misshapen version of a naturally occurring protein, dubbed a prion. It seems to act like a template, causing the normal, benign version to change shape and accumulate in the brain. What's more, "good" proteins may spontaneously go "bad," triggering disease even without exposure to infected meat.

Even mad-cow buffs may find new details in Rhodes's account. But I wish he had had more time to explore certain issues. Was it really necessary to infect thousands of chimps and other critters? How much did scientists' quest for fame delay a solution? And how should we judge the enigmatic Gajdusek, who last month pleaded guilty to sexual abuse of one of the 38 Micronesian children he raised and educated in the U.S.? Perhaps the underlying story is the clash between the Stone Age culture—and its freewheeling sexual practices—that Gajdusek loved and the far more straitlaced West.

The book also would have been more believable if Rhodes had toned down his warnings about the risk of getting CJD in the U.S. True, it's a scary time to be a beef-eater in Britain, where the evidence suggests that mad cow disease is being transmitted to people. We won't know for years if dozens or many thousands will get it. But as long as the FDA moves ahead, there's no evidence that we have much to fear yet in the U.S. except fear-mongering itself.

BY JOHN CAREY

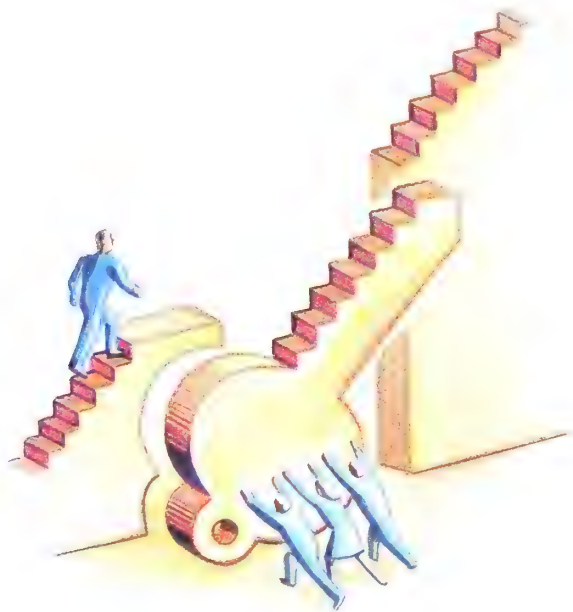
Carey covers science from Washington.



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HOT TYPE

MANY BOOKS ON COMMODITY TRADING DRIFT into such related topics as board games and gambling. In *The Education of a Speculator*, the No. 2 hardback on this month's best-seller list, Victor Niederhoffer draws on everything from monkeys to Molière. And his chapter on sex puts pork bellies in a whole new light.

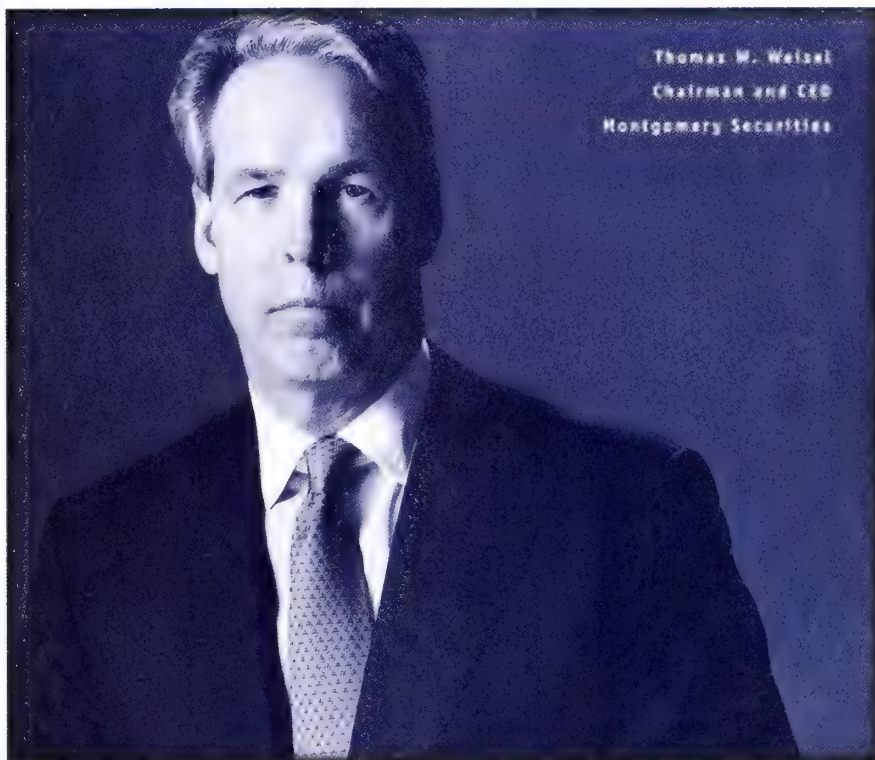
This 444-page autobiography takes its readers on a romp through the mind of a one-of-a-kind trading whiz. Those seeking a system to beat the market will be disappointed: Niederhoffer reveals none of the secrets that have guided him to a 32% average annual return since 1982. But he's generous with his insights on broader topics—including "sexuality," the link between speculation and sex. There are also lots of amusing

anecdotes—such as how hedge-fund giant George Soros, a Niederhoffer friend and customer, restored his nerve after the 1987 stock-market crash by drubbing the author in chess.

Loosely organized by topic, the book skips around—and so should readers, using the index. At times, Niederhoffer tries so hard to be clever that his message is muddled. But he lands some well-aimed jabs, too, such as nailing his fellow commodity-trading advisers for inflating performance figures. Even Niederhoffer finds the market a harsh mistress, and he spends much more time fretting about his losing trades than trumpeting his winners. Despite its amusing diversions, this is a cautionary tale for risk-takers of all stripes.

BY GREG BURNS

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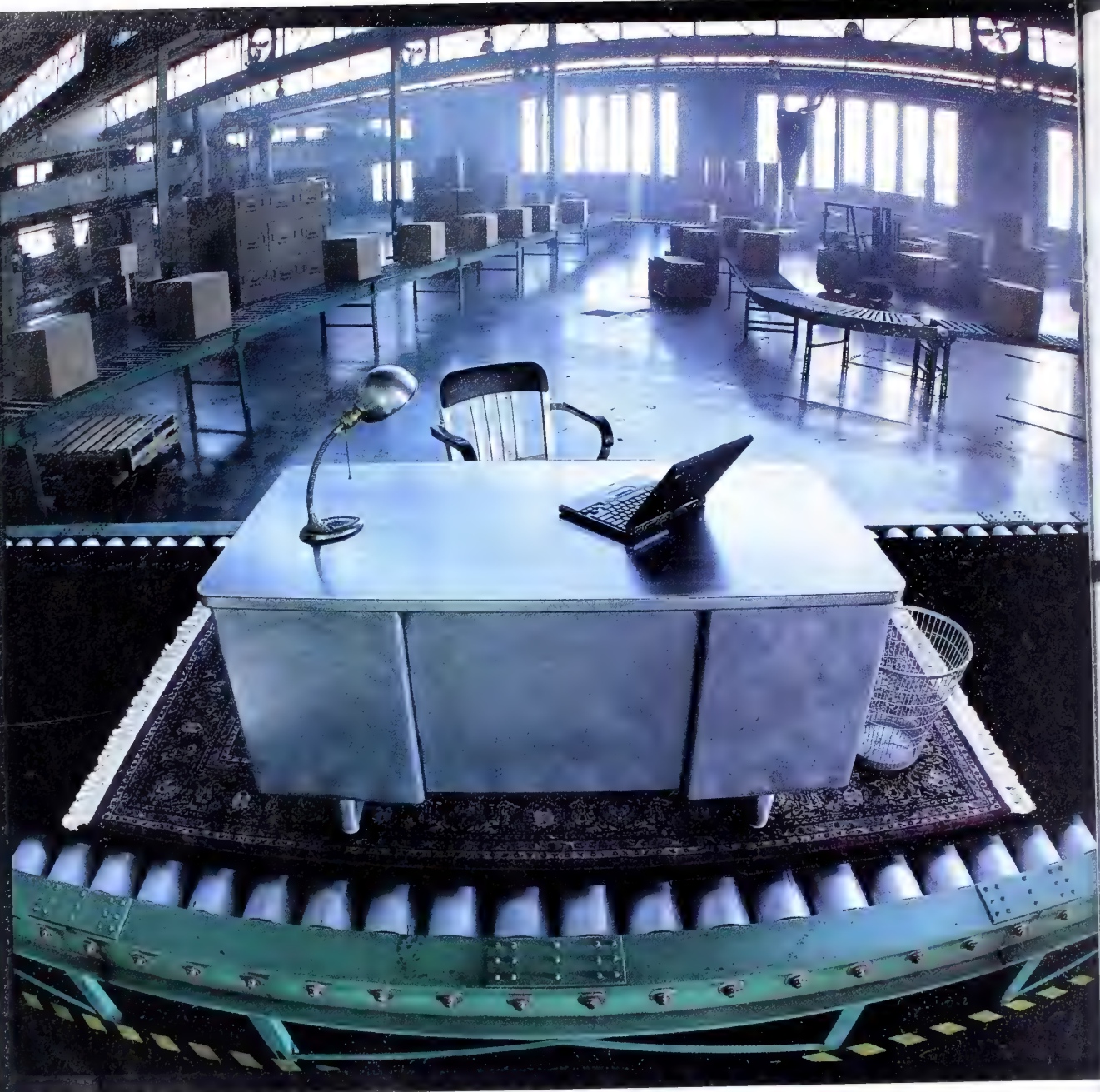
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BY ROBERT KUTTNER

DON'T LET THE BABY BELLS STALL COMPETITION



THWARTED:
Congress has
done its best
to lower your
phone bill.
GTE and the
Bell offspring
have done
their best to
resist

When the first anniversary of the Telecommunications Reform Act of 1996 occurred last month, much of the press coverage treated the act as the dog that didn't bark. After all, over 99% of telephone customers are still stuck with a monopoly. Maybe the act was a giant misstep.

The real story is more complex. Mainly, it reflects fierce resistance by local monopolies—the Baby Bells and especially GTE Corp.—against cooperating with the spirit of the act. Its basic objective was to allow long-distance carriers and local phone companies into each other's markets. Local telephone companies, currently monopolies, could enter the long-distance market (from which they had been barred by the terms of breakup of the old Bell system) only after the Federal Communications Commission had certified that their local market was effectively competitive.

That meant the local monopolies had to do something no dominant company will willingly do: let in competitors on reasonable terms. The 1996 act and the FCC regulations issued last August require local phone monopolies to give competitors fair access to local networks. Rivals may build their own facilities and connect to the local network, lease portions of the local network, or they can buy services wholesale and resell them retail.

Under the law and regulations, the incumbent monopoly is required to charge reasonable prices to its potential competitor and not play technical games that result in a competitive disadvantage for the newcomer. For example, the customer of a competing phone company shouldn't have to dial a special access code or suffer delays in obtaining service. And there are innumerable, mind-numbing technical issues of fair access.

OLD HAND. Mandating that monopolies welcome rivals seems an improbable route to competition. But it is precisely the regulatory strategy that brought competition to long-distance service. AT&T and other long-distance carriers are currently indignant at the stalling tactics employed by GTE and the Baby Bells, none of which are expediting interconnection. AT&T, of course, knows just how this game is played. In the 1970s, before the landmark antitrust suit that led to the Bell breakup, AT&T used just these sorts of moves against upstarts such as MCI Communications Corp. Customers of fledgling long-distance carriers found that they had to dial extra digits, that

the technical quality of the signal wasn't as good as AT&T's, and that they suffered other ingenious glitches AT&T could devise.

But once the courts resolved that AT&T was abusing its monopoly position and had to be broken up, both U.S. District Judge Harold Greene and the FCC moved aggressively to enforce fair terms of engagement. And AT&T, though it continued to bicker about the details, did not massively resist the entire approach. New long-distance companies did get reasonable access to customers and were able to both lease long-distance capacity on reasonable terms from AT&T and build their own networks. AT&T remained closely regulated as a recovering monopoly.

MANNING THE GATES. Unfortunately, the Baby Bells and GTE are not behaving in the same spirit. For the most part, they are delaying the entry of local competition. This is hardly surprising, since they benefit from at least \$10 billion in annual overcharges for long-distance access to their local monopolies. By stalling, they can consummate mergers with each other, the better to resist competition when it finally arrives.

GTE, in particular, has resisted with litigation orchestrated by William P. Barr, formerly Attorney General in the Bush Administration. Last September, GTE obtained an order from the U.S. Court of Appeals for the 8th Circuit blocking the FCC regulations implementing the 1996 act. Oral argument was heard in January. If GTE loses, it will likely appeal to the Supreme Court.

GTE has a special incentive to delay, since the company was not part of the original consent decree breaking up the old Bell system and thus is not barred from the long-distance market. So it is currently the only phone company that has both local monopolies and long-distance service. GTE is also tying up the process in state regulatory proceedings. The states must implement regulations consistent with the 1996 federal law if local competition is to succeed.

Eventually, if the FCC and Congress stay the course, full competition will come to local telephone markets. After all, long-distance competition took more than a decade. The disappointing pace to date is no indictment of the 1996 act or of the FCC. Rather, it is a testament to the tenacity of local monopolies—and to the need for regulation that promotes competition.

Robert Kuttner is co-editor of *The American Prospect* and author of *The End of Laissez-Faire*.

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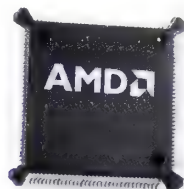
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BY GENE KORETZ

LOOK WHO'S SET TO POUNCE

The world's tiger ranks are shifting

Judging by the unprecedented gains being made by developing nations, the global economy is entering a new era of widespread growth. But that doesn't mean progress will be evenly distributed. In the next decade, only a few countries are likely to become "tigers"—nations demonstrating the capacity for rapid, sustained growth.

According to a scorecard devised by American Express Bank Ltd., the elite club of confirmed tigers now includes a new member, China, which joins the

TIGER ECONOMIES: THE NEXT GENERATION



ranks of Hong Kong, Malaysia, Singapore, South Korea, and Thailand. The scoring—based on measures of economic stability, human capital, export outlook, and investment—also shows that Taiwan has slipped back to near-tiger status because of a high budget deficit and slow export growth.

Meanwhile, the bank reports that fast growth has spread beyond Asia: Its list of near-tigers (chart) includes three non-Asian members: Argentina, Chile, and the Czech Republic. What's more, the first two, plus the Philippines and Vietnam, have at least doubled their tiger scores in the past decade—evidence of the rapid economic strides possible in today's integrated global economy.

Looking regionally at the 45 nations surveyed, African countries are the laggards, with scant progress in foreign investment, privatization, and financial-sector reform. Latin America, by contrast, chalked up the most improvement and is moving toward investment- and export-led growth—though hampered by low savings, high payroll taxes, and inefficient government sectors.

At the moment, the most difficult region to assess is Eastern Europe—partly because reforms are so new and macroeconomic instability remains high. Still, the Czech Republic, Poland, and Slovakia show potential tiger capabilities. And the region's well-educated labor force should prove invaluable once market reforms start to pay off.

A CLOSER LOOK AT PRODUCTIVITY

Are factory-sector gains overstated?

It's a study in contrasts. While factory productivity has risen at a heady 3.2% a year in the current expansion, productivity in services is reported to have edged higher at a mere 0.2% pace—lowering overall business productivity growth to just 1% a year.

This pattern doesn't seem credible to many who question the anemic gains in services. If growth in manufacturing output per hour, which can be measured rather precisely, is so strong, they ask, how can growth in services output per hour, which is hard to measure, be so weak—especially in light of the service sector's heavy investment in computers?

Stephen S. Roach of Morgan Stanley & Co. has one answer that may not make the skeptics happy: Factory productivity growth is probably overstated.

Roach's focus is the factory sector's increasing reliance on outsourcing in the 1990s—its use of contract workers supplied by the temporary staffing industry, which is counted as a business service. Noting that Manpower Inc., the nation's largest employer, estimates that roughly half of its temporary staffers toil in the factory sector, Roach argues that such work time should be properly allocated to manufacturing. In other words, factory productivity has gotten an unwarranted lift because some of its workers are no longer on its books.

How much of a lift? If half the hours worked in the help-supply industry were added to labor input in manufacturing, Roach figures that annual factory productivity growth in the current expansion would drop to 2.7%. Such

growth in the much larger services sector, however, would be raised by a mere 0.1%.

THE FED REALLY KNOWS BEST

At least when it comes to inflation

As the financial markets brace for a possible interest-rate hike by the Federal Reserve, it would be nice to believe that the Fed's reading of inflation trends is more accurate than the prognostications of us mere mortals. As it happens, that appears to be true.

Christina D. Romer and David H. Romer of the University of California at Berkeley compared the Fed's internal inflation forecasts with the consensus views of private forecasters. (Such forecasts for the coming 12 to 18 months are prepared by the Fed eight times a year prior to Fed policy meetings but are only made public five years later.)

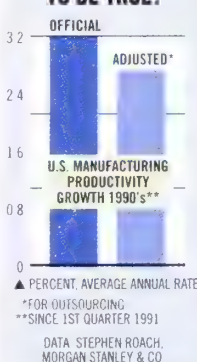
Surveying the record from 1968 to 1991, the two economists found that the Fed forecasts were consistently superior to commercial ones. Indeed, the Fed's track record was so good that someone with access to both forecasts would have done best by completely ignoring the commercial product.

Romer and Romer find no evidence that the Fed's accuracy is due to getting economic data early or knowing about pending monetary policy shifts. The Fed sees jobs and inflation numbers only the night before they are released, they note, and its track record is superior even over three- and six-month horizons—too soon for monetary policy to affect inflation. Rather, they conclude that the Fed's forecasting staff, with its superior resources, simply does a better job of processing information.

Private forecasters get a strong hint of the Fed's inflation views, of course, when it adjusts short-term interest rates up or down. (On average, a one-percentage-point hike indicates that its inflation projection for the coming year is about a quarter of a percentage point higher than commercial forecasts.) And the forecasters usually respond to a rate hike appropriately by raising their inflation forecasts—though by less than the Fed's move would seem to imply.

At least in part, suggest the Romers, this subdued response is rational. That's because by raising rates, the Fed is both signaling higher inflationary expectations and taking action at the same time to reduce the inflation it foresees.

TOO GOOD TO BE TRUE?



COTCHA AGAIN! SURPRISES FROM THE EXPANSION THAT JUST WON'T QUIT

Consumers are fueling new momentum that could last through spring

U.S. ECONOMY

What slowdown? Three months ago, economists surveyed by BUSINESS WEEK confidently predicted that the economy would cool off from its nearly 3% growth rate in the last three quarters of 1996. For the fourth, they projected a sedate 2.2% pace, with that modest gait continuing through the first half of 1997.

Not even close. After expanding nearly 4% at the end of last year, the economy is easily on its way to growth of better than 3% in the first quarter. And because of a new vibrancy in the labor markets, consumers are leading a push on domestic demand that could fuel greater-than-expected economic growth in the second quarter as well.

Indeed, by all signs, consumer-led demand is spurring a mini-growth cycle, similar to the pattern in 1994. Then, the impetus was the delayed effect of 1993's sharp drop in long-term interest rates. Now, the thrust is coming from the strongest job market of this expansion, with moral support, at least, from a booming stock market. Robust spending is

boosting output and creating the need to build up inventories, while output gains are igniting growth in jobs and incomes, which feeds more spending. This virtuous cycle is evident in the latest reports on retail sales, housing starts, inventories, and industrial production. The economy's surprising strength is sure to be a hot topic at the Federal Reserve's policy meeting on March 19, and because of it, chances for an interest-rate hike that caucus have increased. But even amid very tight labor markets, there are still few signs that strong demand for goods and services is straining the production process. However, those strains seem likely to start showing up in coming months.

THE BUZZ AT THE FED'S MEETING

undoubtedly will center on the current rebound in consumer spending (chart) and its potential implications for future inflation. Not only did February retail sales jump 0.8%, but January spending has been revised sharply higher, to show a gain of 1.5%—more than twice the pace of the originally reported advance. Through February, real retail sales for the quarter are rising at the fastest

clip since 1994, at the end of the last growth spurt.

After already climbing at an annual rate of 3.4% in the fourth quarter, real consumer spending on goods and services appears to have increased in the 4%-to-5% range in the first quarter. That's a powerful thrust for overall growth from two-thirds of the economy.

That stride will be difficult to maintain in the second quarter, however, since consumers tend to take a breather after such spending sprees. And the surging stock market means equity investors face big tax payments to Uncle Sam and state coffers by Apr. 15. But with labor markets strong, the fundamentals under continued spending will not go away anytime soon.

For example, in the first quarter, consumers' real aftertax income may well rise even faster than spending. January income already has risen at an annual rate of 4% from the fourth-quarter level, and growth in the 5%-to-6% range for the full quarter seems likely, especially given the record rebound in real weekly earnings in February. Some households are also getting more cash from a burst of early tax refunds. Moreover, consumer optimism in March is the highest in at least two decades, based on the University of Michigan's preliminary index of consumer sentiment.

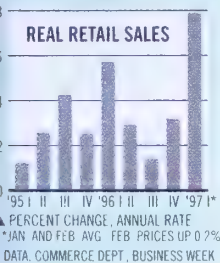
CONFIDENT HOUSEHOLDS

and a home-mortgage rate that remains under 8% are the chief reasons why housing continues to be one of the most surprising sources of the economy's strength. Housing starts surged 12.2% in February, to an annual rate of 1.53 million, the highest in three years (chart). February's warmer-than-usual weather overstated the gain, but housing is on its way toward adding to economic growth in the first half. The generally held belief as of late last year was that it would contribute nothing or even detract from it.

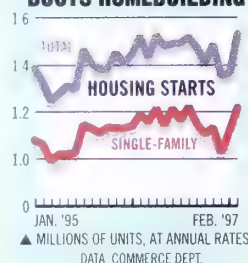
However, the March survey by the National Association of Home Builders showed sizable pickups in buyer traffic through model homes as well as in current sales, with sales expectations holding near the higher levels of recent months. The trade group's overall housing-market index, a composite of all three

SHOPPERS GO ON A TEAR

REAL RETAIL SALES



WARM WEATHER BUOYS HOMEBUILDING



Business Outlook

measures, has been slowly rising since November.

Capital spending by businesses on new buildings and equipment is unlikely to fade away, either. On the contrary, commercial building is gaining strength as vacancy rates drop, and outlays for equipment typically lag behind the business cycle. Spending slowed last year as companies saw demand fade when the economy eased in 1995. Now, with the economy picking up, the need for new capacity will lift 1997 spending.

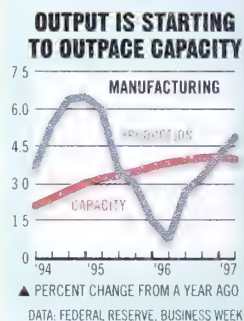
ALTHOUGH CONSUMERS MAY STOP to catch their breath in the second quarter, production should keep the economy rolling. That's because inventories are not growing at a rate that allows businesses to keep up with demand, and a faster rate of stockpiling seems inevitable. Last year, inflation-adjusted demand for goods rose 4%, while inventories increased only 1%. In January, stockpiles held by manufacturers, wholesalers, and retailers rose 0.1%, before price adjustment, even as sales jumped 1.2%. The ratio of inventories to sales fell to a record low of 1.37.

With inventories so lean, industrial production will continue to increase, if not speed up. Output of factories, utilities, and mines rose 0.5% in February, but the advance was held back by a drop in utility output, which was depressed by February's mild weather. Production in manufacturing jumped 0.8%, more than making up for January's weather-related drop of 0.2%.

An emerging problem, though, is that factory output starting to grow faster than new capacity is coming on line (chart). In fact, capacity growth seems to be easing a bit, the result of last year's slowdown in capital spending. That means the capacity utilization rate in manufacturing, which rose to 82.5% in February, may soon enter the 83%-to-84% range, where production and distribution bottlenecks often create pricing pressures.

For now, those pressures look nil. Producer prices of finished goods actually fell 0.4% in February, and core prices, which exclude food and energy, dropped 0.1%. Inflation at the consumer level is equally benign. Total consumer prices for goods and services increased 0.3% in February, while core prices edged up just 0.2%.

Yet even with the current low rate of inflation, capacity utilization rates bear watching. To maintain this virtuous cycle, demand growth must stay in sync with the ability of suppliers to satisfy it, and you can be sure the Fed is closely watching this balancing act. That's because, as forecasters both in and out of the Fed will tell you, the cost of misjudging the economy's momentum in 1997 could be underestimating where inflation will be in 1998.



JAPAN

SLOWLY AND SHAKILY, GROWTH TIPTOES IN

The Japanese economy is showing signs of stronger growth, but gains will be limited by the restrictive stance of the fiscal 1997 budget.

Real gross domestic product in the fourth quarter grew at a strong annual rate of 3.9%. Growth was led by an 18.4% jump in exports, while business investment and housing finally responded to low interest rates.

For 1997, industrial output started the first quarter by jumping 5.3% in January, the biggest monthly gain on record. Auto production alone was up 12.6%. The Ministry of International Trade & Industry warned that output fell back in February and March. But

orders rose in January, while inventories were flat. Those data suggest that output can rebound in the spring.

Exports are priming the factory pump, thanks to the yen's 14.5% drop against the dollar over the past year. After surging last quarter, exports in January and February still averaged 13.5% above year-ago levels. As a result, the trade surplus' four-year slide has likely ended (chart).

It rose to 686.7 billion yen (\$5.6 billion) in February, up 6.5% from a year ago.

Even household spending is showing some life, despite a poor job market and weakening consumer sentiment. Real private

consumption grew at a 4.9% pace in the fourth quarter, and nominal household spending rose 0.1% in January. But that gain may reflect buying in anticipation of the April hike in the value-added tax.

In fact, the spoiler in the outlook is Japan's new fiscal austerity. The government budget that begins on Apr. 1 will likely raise the VAT rate from 3% to 5%, eliminate some tax rebates, and increase medical-insurance fees. That drop in aftertax income, along with slower public-spending growth, is why the government expects real GDP to grow just 1.9% this year, compared with 3.6% in 1996. The fiscal cuts will most hurt consumers who have only begun to crawl out of their slump. The question is whether rising taxes may force them back into hiding.

THE TRADE SURPLUS MAY HAVE HIT BOTTOM



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WASHINGTON

THE BACKLASH AGAINST SOFT MONEY

Business is fed up, and it may spur campaign-finance reform

Earlier this year, Republican fund-raisers asked a big Wall Street investment house for a donation to the Committee to Preserve the Eisenhower Center, the Republican Party's Washington headquarters. It was a routine request for the kind of "soft money" donation that has come to dominate U.S. campaign funding. The Eisenhower Center fund, in fact, easily pulled in \$1.4 million during the last election. But when the call came this time, the CEO had had enough. "I'm not writing any more checks to that damn building," he fumed to his Washington lobbyist.

BOTTOM-LINE REASONS. The Wall Street CEO isn't alone. With the Donorgate scandal shining a harsh light on campaign finance—and Corporate America's role in funding the money machine—executives are weighing in on how to fix the system. No, they're not talking about forgoing political contributions—or the access to policymakers that they ensure.

For the most part, executives are joining the chorus calling for curbs on soft money because they're tired of endless appeals for funds that may not serve their interests. The unrestricted millions supposedly support party-building activities, but in practice are often funneled to candidates throughout the country. With soft money, donors still buy clout. But they don't get the direct access that comes from

making contributions to politicians. "You don't know if the money's being spent on cocktail parties and limo rides or on ads that benefit statehouse candidates in Minnesota," gripes a lobbyist for a New Jersey company.

What changes does business want to see? In a BUSINESS WEEK/Harris Poll conducted in mid-March, two thirds of the 400 top executives who responded called for an end to soft-money donations (page 35). But most of the executives—some 61%—would like greater freedom to make direct contributions to campaigns in order to gain access to politicians and influence business issues. And 74% said that the \$5,000 cap on corporate political action committee donations is fine as is.

In this case, a little bit of self-interest may be just the thing to prod



Washington. If business leaders, for their own reasons, throw their weight behind efforts to clean up the campaign-finance mess, they could roll over congressional resistance to sweeping revisions of election-finance laws. "We desperately need grass-roots accountability to force some of our colleagues to realize this is a cutting-edge issue," says Senator John F. Kerry (D-Mass.), a reform advocate.

It isn't hard to find corporate executives who are sick of soft-money shake-downs. "Soft money is a travesty," says Robert Stuart, the former chairman of Quaker Oats Co. Says Mitchell Ritzman, CEO of Sybase Inc., a California software maker: "I feel tapped out." He gave the Democratic National Committee more than \$100,000 last year, but he intends to give less in the future. "The whole process is out of control."

USADERS. Other top execs say they'll give less next time, too. It's easy to see why. For the '96 election, soft-money donations shot through the roof. The political parties raked in \$262 million in soft money, triple their take for '92. According to Common Cause, a nonprofit group that tracks donations of \$10,000 or more, corporations and executives generated 93% of the GOP's \$138 million checkbook-cash hoard and 74% of the Democrats' \$128 million soft-money cache.

Business donors are also wary of the spotlight the Donorgate scandals are throwing on them. Their worst fear: being dragged into messy congressional inquiries. Ohio Senator John Glenn, the leading Democrat on the Senate Governmental Affairs Committee, plans to call tax-exempt nonprofit groups with loose ties to the Republican Party. But he doesn't rule out serving subpoenas on big-cat donors: "We will consider bringing CEOs before the panel," he says.

A few prominent businesspeople are joining the wider crusade for comprehensive campaign-finance reform. A foundation controlled by financier George Soros has pledged \$3 million to Public Campaign, a nonprofit group working to build support for public financing of state and federal elections. Soros is also aiding a handful of other campaign-reform groups.

THE HEAVIEST HITTERS

Soft-money donors of \$250,000 or more—Jan. 1, 1995, through Nov. 25, 1996

REPUBLICANS*

PHILIP MORRIS	\$2,508,118
RJR NABISCO	1,148,175
AMERICAN FINANCIAL GROUP	794,000
ATLANTIC RICHFIELD (ARCO)	766,506
UNION PACIFIC/SOUTHERN PAC.	692,460
JOSEPH E. SEAGRAM & SONS	685,145
BROWN & WILLIAMSON	635,000
NEWS CORP.	604,700
AT&T	546,440
U.S. TOBACCO (UST)	539,253

DEMOCRATS*

COMMUNICATIONS WORKERS OF AMERICA	\$1,108,425
AMER. FEDERATION OF ST. CTY. & MUNIC. EMPL. (AFSCME)	1,069,550
WALT DISNEY	997,050
JOSEPH E. SEAGRAM & SONS	945,700
UNITED FOOD & COMMERCIAL WORKERS	707,550
REVLON GROUP/MacANDREWS & FORBES HOLDING	648,250
LAZARD FRERES	617,000
LORAL	600,500
MCI TELECOMMUNICATIONS	593,603
LABORERS' INTL. UNION OF NORTH AMERICA	580,400

*Includes contributions from executives and/or subsidiaries.

DATA: COMMON CAUSE

New York investment banker Jerome Kohlberg Jr. plans to spend \$1 million a year on efforts to educate voters and lobby Congress on the need to revamp the system. Kohlberg, a co-founder of leveraged buyout pioneer Kohlberg Kravis Roberts Co., backs a bill sponsored by Senators John McCain (R-Ariz.) and Russ Feingold (D-Wis.) that would ban soft money. "It's demeaning and insidious, and it's undermining the whole political system," says Kohlberg.

Some leaders are focusing on public funding for TV advertising. "The fundamental problem is that politicians have to raise all this money to buy TV commercials," says Newton N. Minow, former chairman of the Federal Communications Commission. Barry Diller, chairman of the Home Shopping Network, has come out in support of a proposal to give broadcasters no-cost licenses for new airwave spectrum in return for free air time for candidates. That would cut campaign costs and encourage more substantive debate, says Paul Taylor of the Free TV for Straight Talk Coalition.

Democrats have good reason to clamor for reform. Traditionally, they've been at a disadvantage with the GOP in the money-raising sweepstakes. Worse, the current flap about fund-raising abuses is having a chilling effect on their donors. "Major contributors will be in a holding pattern until this issue is resolved," says Nathan Landow, a Bethesda (Md.) real estate developer and veteran Democratic fund-raiser.

KEEPING UP. But as soft-money kingpins, Republicans will fight an outright ban on these donations. "That would amount to unilateral disarmament for the GOP because unions would still be free to get out the vote for the Democrats," says Steven Stockmeyer of the National Association of Business PACs. Indeed, many business donors say they'll keep giving as long as their rivals do. "Given the degree to which Federal Express is regulated, it's absolutely necessary for us to participate in the process," says a spokesman for FedEx, which gave \$959,000 in soft money to the two parties for '96. Adds Daniel Rappaport, chairman of the New York Mercantile Exchange: "If everyone else is giving and we don't, our voice won't be heard."

But with more executives emboldened to just say no, Congress may have a tough time resisting new fund-raising curbs. The pols' success in putting the arm on business could well turn out to have been too much of a good thing.

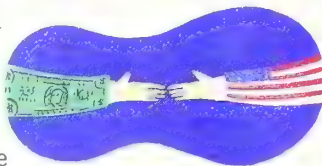
By Amy Borrus and Mary Beth Reagan in Washington, with bureau reports



BUSINESS WEEK/HARRIS EXECUTIVE POLL

LOOK WHO WANTS TO CHANGE THE SYSTEM

As Donorgate unfolds, the campaign-finance system is drawing the ire even of its biggest patrons. In the 1996 election, 70% of executives contributed an average of \$3,278 apiece. Now, almost as many say the rules need an overhaul. Some



68% favor ending unlimited soft-money contributions, and many support stricter disclosure requirements. In part, execs want more bang for their bucks. But they also may simply be sick of solicitations: Three-quarters say pressure to give has intensified.

REFORM, PLEASE

In light of allegations surrounding the Clinton Administration's fund-raising tactics, which of the following statements comes closest to your views about the current system of financing political campaigns?

The system is basically sound and there is no need to change anything.....	2%
The system requires only modest reforms needed to curb occasional abuses	29%
The system is broken and is in need of fundamental reform	68%
Don't know	1%

HOW TO DO IT

Do you favor or oppose...

	FAVOR	OPPOSE	DON'T KNOW
Increasing the \$1,000 limit on how much money individuals can give to candidates, while imposing stricter disclosure requirements.....	61%	37%	2%
Increasing the \$5,000 limit on how much money PACs of corporations, labor unions, and other special interest groups can give	25%	74%	1%
Eliminating PAC contributions altogether	33%	63%	4%
Ending unlimited "soft money" contributions to political parties by corporations and other interests.....	68%	30%	2%
Encouraging individual giving through tax credits for contributions.....	49%	49%	2%
Replacing private giving with taxpayer-supported public financing of campaigns	37%	60%	3%
Requiring TV and radio stations to provide candidates free air time.....	56%	43%	1%

CAMPAIGN CONTRIBUTORS

Did you contribute money in 1996 to a political campaign, or not?	
Contributed money in 1996	70%
Did not contribute money in 1996	30%

SOFT-MONEY SOURCES

In 1996, did your company make any soft-money contributions to either political party, or not?	
Contributed money in 1996	18%
Did not contribute money in 1996	59%
Don't know/refused to say	23%

REASONS TO WRITE THE CHECKS

For each of the following please tell whether this is a major reason, a minor reason, or not a reason at all why you or your company makes political contributions.

	MAJOR REASON	MINOR REASON	NOT A REASON	DON'T KNOW
Making political contributions is my way of supporting the democratic process	59%	33%	7%	1%
I have strong political views and want to support a political party and candidates who share my convictions.....	65%	26%	8%	1%
My company and I hope to gain access to politicians so we can gain fair consideration on issues affecting our business	50%	27%	19%	4%
My company and I hope to get preferential consideration on regulations or legislation benefiting our business	17%	34%	44%	5%
I fear I may be at a competitive disadvantage to a rival on some issue if I don't give	30%	28%	40%	2%
I fear I may lose influence to labor or environmental groups if I don't give	25%	33%	40%	2%
My company encourages me to donate to its PAC	26%	35%	36%	3%
I have personal connections to a candidate	21%	30%	48%	1%

PARTY PLEAS

Would you say that the pressure from political parties to contribute money in the last election intensified sharply, intensified somewhat, abated somewhat, or abated sharply?

Intensified sharply	30%	Abated sharply	0%
Intensified somewhat	47%	Don't know	18%
Abated somewhat	5%		

PRESSURE TACTICS

Have you ever felt pressured for a political contribution in a manner that made you feel uncomfortable?	Yes, felt pressured ..22%
	No, did not feel pressured78%

CALLS FROM THE POLS

Has a candidate ever personally solicited you for a campaign contribution, or not?	Candidate personally solicited	53%
	Have not been personally solicited	47%

EDITED BY KEITH H. HAMMONDS

Survey of 400 senior executives at large public corporations. Interviews were conducted Mar. 11-18, 1997, for BUSINESS WEEK by Louis Harris & Associates Inc. Complete results are available from Business Week Online, on the World Wide Web at www.businessweek.com, and on America Online (key word: BW).



CHINA INTERESTS

Boeing funded the Council on U.S.-China Affairs, a group with ties to fund-raiser Huang (inset)

Boeing spokesman Tim Neale. "But we weren't coordinating with each other." Boeing also denies that any of its efforts were synchronized with China's government or that they knew of Huang's contacts with Xue. Council spokesman Ya Li says the group, which has closed its Washington office for lack of funds, never received money from the Chinese government.

Any link to Huang would prove embarrassing to Boeing, given his growing Donorgate notoriety. BUSINESS WEEK has learned that Huang registered as an adviser to Lippo Group when he attended an April, 1996, International Finance Corp. global retailing seminar—even though Huang was a DNC vice-chairman. In that



post, he was allowed to have outside employment. But, a DNC spokeswoman says, he never told superiors he was working for the Indonesian banking group, which is owned by ethnic Chinese. Justice Dept. and congressional investigators are probing whether Huang helped Lippo pass sensitive information to China in order to curry favor.

TROUBLESOME. The escalating Donorgate scandal is clearly complicating U.S.-China relations. Vice-President Al Gore, who will visit Beijing on Mar. 24, is reconsidering plans to officiate at the contract signing for China's \$1 billion purchase of Boeing 777s. Normally, Gore would jump at the chance to associate himself with Boeing's victory over Europe's Airbus Industrie. But Gore's aides are urging him to avoid appearing to endorse Boeing's pro-China positions.

Similarly, House Speaker Newt Gingrich (R-Ga.) is under mounting pressure to cancel a China trip he and nine other members are scheduled to take in late March. Representative Douglas Bereuter (R-Neb.), an ardent MFN supporter, and seven other congressmen have canceled a trip to China sponsored by a nonprofit foundation.

Sources close to the WTO negotiations say heightened tensions in Washington will make it difficult to complete a deal with China. And the scandal has turned the annual campaign to renew China's MFN trade status into a no-holds-barred battle. Businesses with links to China are watching carefully—fearing that they could get caught up in the mess.

By Paula Dwyer, with Amy Borrus in Washington, Pete Engardio in New York, and Dexter Roberts in Beijing

DONORGATE

THE CHINA CONNECTION'S BOEING CONNECTION

A possible link between the plane maker and John Huang

The name sounds innocuous—the Council on U.S.-China Affairs. But this now-inactive group, aimed at improving China's image in the U.S., may provide insights into the extent to which John Huang, the ex-Commerce Dept. official and Democratic fund-raiser at the center of the Donorgate scandal, was involved with efforts of U.S. corporations and the Chinese embassy to influence China policy.

The council was founded by Xue Haipei, a dissident who fled China after the 1989 Tiananmen Square massacre. His goal was to keep China's economy open, in hopes that democratic reforms would follow. Xue's group got its funding from Boeing Co., which sees China as vital to its future. And Xue appears to have kept China's embassy and Huang informed about the council's activities.

"DATE." A seven-page memorandum from Huang's files at the Democratic National Committee lays out details of the council's public strategy. The memo, dated Jan. 15, 1996, is from Xue to both Boeing and members of the council. Huang's copy includes a cover note describing the memo as an "update on strategies and programs I drafted for discussion with our partners, like Boeing in this case, and with the Embassy." The memo doesn't spell out which embassy, but elsewhere, the document says that the council's "China partners" would pay

expenses incurred by congressional delegations to China hosted by the council.

The document, obtained by BUSINESS WEEK, affords a glimpse of Huang's network. Former colleagues of Xue say Huang as well as a Boeing representative attended a council seminar for congressional staffers last year. Huang's lawyer refused to comment.

A Boeing spokesman says the company never belonged to the Council on U.S.-China Affairs. But Boeing concedes it gave the group a \$10,000 grant, reasoning that a former dissident lent credibility to calls for giving China most-favored-nation status and entry into the World Trade Organization—which Boeing felt would help its China business. "His goal meshed with our goal," says

"John: A Good Happy New Year! What follows is an update on strategies and programs I drafted for discussion with our partners, like Boeing in this case, and with the Embassy"

XUE HAIPEI

From a cover note on a memo to Boeing and the Council on U.S.-China Affairs

TRUSTBUSTERS

THE FEDS STORM A PLASTIC FORTRESS

At issue now: Interlocking ownership of Visa and MasterCard

Visa USA Inc. and MasterCard International Inc. have dominated the U.S. credit-card market ever since bank-issued plastic invaded consumer wallets two decades ago. The two non-profit bank associations have ridden the wave of the credit-card business, now estimated at \$707 billion in U.S. purchases in 1996.

But now the giants may be in for a rude awakening. *BUSINESS WEEK* has learned that the Justice Dept. is broadening an ongoing investigation of the twin towers of plastic. The inquiry now will include questions that could force a top-down restructuring of the entire credit-card industry—a breakup of the Visa-MasterCard “duopoly” that, analysts say, might reshape the industry the way the breakup of AT&T changed telecommunications. Meanwhile, the Federal Trade Commission is mulling its own probe of alleged efforts by Visa to make merchants accept its debit cards as a condition for using the association’s popular credit card.

The FTC and Justice decline to comment on their activities. But, says New York antitrust attorney Lloyd Constantine, who has filed an antitrust lawsuit against Visa in federal court in Brooklyn: “All these efforts are manifestations of the same issue: Visa and MasterCard’s market power.”

Together, Visa and MasterCard account for three-quarters of credit-card

purchases by U.S. cardholders—with Visa at a 50% share and MasterCard at 24% as of mid-1996, according to newsletter *The Nilson Report*. That clout piqued the interest of regulators last summer, when Justice intensified its inquiry into conditions that Visa and MasterCard place on issuing banks. The agency has been looking into their policies that prevent rival card issuers, such as American Express Co. and Discover, from getting banks to issue their cards, too. AmEx and Discover won’t comment on the pending investigation. Visa and MasterCard say their rivals have thrived without commercial banks.

STRONG-ARMS? According to knowledgeable sources, the FTC is now entering the fray, looking closely at allegations against Visa brought by Constantine last December on behalf of Wal-Mart Stores Inc. and The Limited Inc. The retailers say Visa makes them accept its debit card, for which Visa charges \$1.10 per \$100 in transactions, if they wish to use its credit card. But other debit card issuers charge much lower prices, and the retailers would rather use those. “Why would any store accept something for \$1.10 when they could buy a better service for less than 10¢? They wouldn’t unless forced to,” Wal-Mart charges

in a statement. The Limited will not comment on the suit. Visa USA says it not aware of any FTC inquiry.

Meanwhile, Justice’s probe is expanding to take in the whole structure of the credit-card industry, according to sources close to the inquiry. They say Justice is looking beyond internal Visa and MasterCard policies to the interlocking ownership of the two associations by the nation’s biggest banks. And cooperative associations, the bank members of Visa and MasterCard are all owners. And since they are members of both Visa and MasterCard, the banks may be unwilling to urge Visa and MasterCard to undermine each other with fierce competition. Ideally, say antitrust experts, Visa and MasterCard should have separate owners. As rivals they’d have less of an incentive to combine forces against AmEx and Discover.

Visa and MasterCard acknowledge Justice is concerned about the industry structure, but they aren’t buying the

CREDIT HISTORY Questions about Visa and MasterCard practices

1990 Visa prohibits members from offering rivals’ cards other than MasterCard and Diners Club.

1994 An appellate court upholds Visa’s right to exclude as members banks that offer competing credit cards such as Discover.

JANUARY, 1996 American Express launches antitrust complaint against Visa’s alleged

attempt to bar members from issuing AmEx cards in Europe. AmEx later files similar actions in Latin America. Visa drops rulemaking efforts in both regions.

JUNE, 1996 MasterCard adopts policy to ban U.S. members from offering AmEx and Discover.

FALL, 1996 Justice Dept. revs up its antitrust investigation of Visa and MasterCard.



argument. Visa USA General Counsel Paul Allen says Justice "has failed to identify any competitive problem in the industry." Adds MasterCard Senior Vice-President Charlotte Rush: "The current industry structure has given rise to extraordinarily intense competition." But if Justice decides to bust up the credit-card industry framework, it could be as significant as the 1984 consent decree that AT&T accepted to settle a federal antitrust suit—and which led to the restructuring of the telecommunications industry.

CASE OF THE DECADE. At the most extreme, Justice may force banks to choose between issuing Visa or MasterCard. Or the agency could forbid large members of Visa to offer MasterCard to promote competition. But the banks could be in an uproar over the lack of choice. It would be "the case of the decade," says William E. Kovacic, an antitrust law professor at George Mason University.

The two giants say they're prepared to fight Justice in court—for years, if necessary. And industry experts note that unraveling the associations' tangled interlocking ownership would be no easy task. "Breaking up Visa and MasterCard is more difficult by a factor of 1,000 than breaking up AT&T, which took 10 years," says David Robertson, president of *The Nilson Report*.

That's why agency trustbusters may not make a decision on this case until Acting Assistant Attorney General Joel I. Klein, who has taken the lead on the matter, is confirmed in his new post by the Senate. Klein is slated to meet with the parties to discuss the case in early April. And if regulators decide to bust up the card associations, lawyers for Visa and MasterCard may be learning more about what happened to old Ma Bell than they ever imagined.

By Catherine Yang in Washington, with Alison Rea in New York

MARCH 1997 Justice is broadening its inquiry to question not only Visa and MasterCard rules, but also an industry structure allowing bank-card issuers to be owner-members of both Visa and MasterCard. Any change could lead to a radical shift in long-standing industry practice. Meanwhile, the FTC is looking into "tying arrangements" regarding Visa debit cards.

FINANCE

A HARD BLOW FOR EASY CREDIT

Rising debt has many credit-card issuers rethinking low rates

The days of easy money are ending fast for banks and other credit-card issuers. The costs of financing credit-card operations may rise for all banks, owing to record default rates and the alarming news from one of the hottest issuers, Advanta Corp. On Mar. 17, the Spring House (Pa.) company announced that with decreasing revenue and rising delinquencies, it will lose \$20 million in the first quarter. It is also reviewing strategic alternatives, including selling the business. "This will drive up the cost of borrowing and cause [the companies] to revisit their pricing schedules for consumers,"

says Helene L. Moehlman, a senior director at the Fitch Investors Service rating firm. "Somebody's got to pay for it."

Card issuers may have brought much of this on themselves, what with their turbo-charged marketing efforts. Over the past five years, Advanta and others have flooded the market with offers of cards with "teaser" rates as low as 5.9%. In response, borrowers have sharply ratcheted up their debts, and many are now unable to pay them. Charge-offs for bad debts have been rising sharply. While Advanta charged off just 2.6% of its receivables as uncollectible at the end of 1995, the company now expects that figure will rise to as much as 7.5% of a \$14.5 billion portfolio by the end of this year. Charge-offs at Banc One Corp. were 6.8% in 1996, while First Chicago/NBD Corp.'s hit 6.7%.

"CATCH A COLD." Advanta was not the first card issuer to feel the pain from rising delinquencies on card accounts. In February, Banc One promised to take steps such as making additional collateral available, if necessary, for some \$2.7 billion in securities backed by credit-card receivables. Moody's Investors Service had threatened to downgrade the securities because of rising delin-

quencies. First Chicago and First Union have had to take steps. Judah Kraushaar, an analyst at Merrill Lynch, says investors still have an appetite for card-backed securities, but that could change. And Gerard Cassidy, an analyst at Tucker Anthony, says that all card issuers could be affected by a worsening market. "The only question," he says, "is which players catch a cold and which get pneumonia and die."

Rising credit-card costs could quickly turn into earnings problems for banks. First Chicago/NBD, for example, earned \$347 million from its credit-card unit in

1996. But on Mar. 18, bank officials warned analysts that despite having scaled back solicitations last June, they expect bad loans to cause the unit to contribute less this year than the 32% return on equity it generated in 1996.

Advanta officials won't say whether or not they plan to throttle back on marketing efforts. They project that their outstanding card loans could grow from a current \$12.5 billion to as much as \$14.5 billion by yearend, a 16% rise. But it's possible some of Advanta's rivals will wind up capping Advanta's growth: If the company

raises rates and fees on its cards and tightens credit standards, more aggressive issuers will undoubtedly step in to lure bargain-hunting customers away.

With a record 1.1 million personal bankruptcies across the country last year, some critics say that the tightening is long overdue. Still others even welcome Advanta's woes. "These losses are the most effective discipline on the market, on the issuers," says Stephen J. Brobeck, executive director at Consumer Federation of America. That discipline will mean pain for more card issuers—and consumers.

By Joseph Weber in Philadelphia, with Alison Rea in New York

MAXING OUT ON DELINQUENCIES

Charge-offs for bad credit-card debt for the largest issuers, as a percent of receivables

	12/31/96	12/31/95
BANC ONE	6.8	N/A
FIRST CHICAGO/NBD	6.7	3.8%
DISCOVER	6.1%	4.5
CITICORP	5.5	3.9
CHASE	5.1	4.2
CAPITAL ONE	5.1	2.6
ADVANTA	5.1	2.6
FIRST USA	4.8	3.1
HOUSEHOLD INTL.	4.7	N/A
MBNA	3.3	3.0

DATA: STANDARD & POOR'S

SCANDALS

SEX, LIES, AND HOME IMPROVEMENTS?

Ex-Astra USA chief Bildman is charged with bilking \$1 million

It was spring of 1994, and Lars Bildman had just bought a \$1.8 million mansion in a tony section of Brookline, Mass. But to Bildman's hypercritical eye, his new digs needed a major overhaul, starting with the driveway. It seems the offending roadway traversed the front of the property. So Bildman ordered it moved, a huge undertaking. Bildman, then chief executive of Astra USA Inc., didn't seem fazed by the cost. And with good reason, according to the landscaper, Alan Steiman's Landscape Inc.: Bildman told the company to bill Astra for the bulk of the work.

That apparently cavalier behavior finally seems to have caught up with Bildman. Federal agents arrested the 51-year-old Swedish ex-executive on Mar. 12 at the Viking Retreat, his Killington (Vt.) vacation home, and charged him with 35 counts, including fraud and tax evasion. According to the indictment, Bildman bilked Astra out of more than \$1 million by getting the company to pay for unauthorized personal expenses, including renovations, family vacations, and even cruises aboard yachts staffed with high-priced prostitutes.

Astra says it had no idea this was happening. "Mr. Bildman," says First Assistant U.S. Attorney Mark W. Pearlstein, "treated Astra as if it were his own personal piggy bank."

BURIED TREASURE. The criminal indictment is just the latest headache for Bildman, who was fired last June after *BUSINESS WEEK* exposed allegations of rampant sexual harassment and other abuses at Astra USA, a unit of Swedish drugmaker Astra. Bildman's attorney, Roderick MacLeish Jr., says his client "vigorously and unequivocally denies the allegations set forth by the government." And in the past, he has said that Bild-



CUFFED IN VERMONT

Bildman, arrested at his Viking Retreat ski home, "treated Astra as if it were his own personal piggy bank," says an assistant U.S. attorney

man paid for the renovations himself.

According to the indictment, though, Bildman used a fairly straightforward scheme to get Astra to pay for the renovations. He simply used many of the contractors working on an expansion of Astra's Westborough (Mass.) headquarters campus. Bildman told the contractors to bury the cost of his personal work in their regular invoices, Pearlstein says. And though Bildman paid for a portion of the work, the true costs were far higher, sources close to the case claim—in part because of Bildman's extravagance.

The landscaping is a case in point.

Steiman's landscaping firm did more than \$200,000 worth of work at Bildman's Brookline mansion, according to office manager Frank Haley. Besides moving the driveway, the company planted 18-foot trees, installed a sprinkler system, and more. "The excavators were there one whole summer just doing stuff," says Haley, who adds that nearly everything was billed to Astra.

Bildman's high living at Astra's expense also included several libidinous cruises, the indictment says. Prosecutors won't provide details, but sources say one such trip was made June 28-30, 1995. Bildman and two other Astra executives took a three-day trip aboard the 72-foot motor yacht *Lady Els* in Florida. Captain Harry Furey says he was told the executives would be bringing their girlfriends. But he says, "it didn't take a brain surgeon to figure out what was going on" when three attractive women boarded—and introduced themselves to the men.

HIRED HELP. During the trip, Furey recalls, the executives guzzled wine, ogled when the women sunbathed topless, and frequently disappeared into the staterooms with them. Total cost of the cruise: \$5,150—not counting the prostitutes. The indictment says that on several such cruises, Bildman paid prostitutes as much as \$1,500 a day apiece and had Astra foot the bill.

One potential Bildman defense is that higher-level Astra executives winked at his extravagances, which the company denies. MacLeish will not comment on Bildman's potential defense. But Bildman may have made a crucial error in 1996 when, prosecutors say, the *BUSINESS WEEK* probe provoked him to attempt a coverup. They claim that he destroyed Astra records and asked contractors to destroy records of work on his homes. Legal experts predict that prosecutors will argue the alleged coverup is evidence of Bildman's guilt.

Bildman's 12-room Brookline house is now up for sale, for \$2.8 million. The listing sheet says that it has been "totally redone" and is "lushly landscaped." Maybe the next owner will decide that the driveway is just fine where it is.

By Mark Maremont in Boston

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EXECUTIVE SUITE

WHERE PARTING IS SUCH A SWEET DEAL

These days, exit packages for top execs are staggering

When Phillip B. Rooney stepped down as CEO of long-suffering WMX Technologies Inc. last month after pressure from investor George Soros, corporate-governance types congratulated themselves. The system, they said, was working.

Working for whom? On Mar. 14, WMX disclosed in its annual shareholder proxy statement that the departing executive would get a \$2.5 million salary in each of the next five years, thanks to the board's interpretation of the terms of his contract. Says director Peter H. Huizenga of the deal: "It is one of these things you have to live with."

Apparently. In the current environment of soaring stock prices, megamergers, and restructurings, Rooney's cushy exit deal isn't unusual. As the proxies roll out, such deals are surfacing across Corporate America. Iron-clad employment contracts and friendly boards mean departing executives—whether retiring, quitting, being merged out of a job, or getting the boot—are leaving with full pockets. "There's got to be something wrong with the system," says compensation expert Graef "Bud" Crystal. "People are being allowed to dictate terms that give huge rewards under all [situations], including abject failure."

Crystal should know, since he had a hand in weaving the most outsize platinum parachute so far—Michael Ovitz' estimated \$94.5 million in cash and options from Walt Disney Co. That was Ovitz' compensation for being forced out as president after 14 controversial months. His payout drew a protest from shareholders at Disney's annual meeting.

SECURITY BLANKETS. Executives don't have to be that high-profile to get sweet deals, though. Mattel Inc. Chairman John W. Amerman, who retired as CEO in 1996 after a well-regarded 10-year tenure, negotiated a deal that helped protect him from a disappointing final year. The toymaker's failure to meet internal targets meant that Amerman didn't earn an award under the 1996 incentive plan. No matter: The board gave him a "special achieve-

ment bonus" of \$370,000 for goals achieved in 1995. He was also named part-time "senior adviser" to CEO Jill E. Barad through 1998, at \$1.1 million a year—his CEO salary.

Clearly, executives are using any new contract talks as an opportunity to protect themselves from any eventuality. Better corporate governance means top jobs are more at risk than they've been in the past, so execs are trying to compensate in advance. "There's great insecurity, and perhaps some people are overreacting by making splendid arrangements," says Pearl Meyer, president of pay consultants Pearl Meyer & Associates Inc.

Occidental Petroleum Corp. Chairman Ray R. Irani is a case in point. In 1991, Irani negotiated a deal so that when he decides to retire, he'll get 50% of his highest annual compensation—including salary, bonus, and restricted stock—for life. Since he made \$6.6 million last year—including an extra \$1.2 million to cover California's high personal income taxes—it should make for a comfortable post-executive lifestyle.

The company referred questions about the payout to the proxy, which points out that Irani has remained at the same base salary since 1992.

Even executives who wind up out the door as a result of mergers are rarely out of the money. Take David M. LeVan, chairman of Conrail, who will parachute home with a \$22 million buy-out of his five-year contract if Conrail's merger with CSX Corp. goes through as now planned. Drew Lewis, who left

PLATINUM PARACHUTES
Executives leaving companies, for all sorts of reasons, are negotiating fat packages



DAVID LEVAN
CEO, Conrail

LeVan will receive an estimated **\$22** million in cash as well as pension benefits if the Conrail-CSX merger goes through, as currently structured, in 1998.



JOHN AMERMAN

retired CEO, Mattel
As adviser to new CEO Jill Barad, he'll get \$1.1 million in salary, plus a \$370,000 "special achievement" bonus. Cashed in **\$18.5** million in options in '96.



PHILLIP ROONEY

ex-CEO, WMX Technologies
Rooney, who left WMX in 1997, will receive a severance package of **\$12.5** million over five years and work as a consultant on a part-time basis.



JOEL ALVORD

retired chairman, Fleet Financial
After his bank, Shawmut, was acquired by Fleet, he got **\$15.5** million—including a \$1.5 million bonus for "long-term valuable service" for 13 months at Fleet.

DATA SEC FILINGS, BUSINESS WEEK

Union Pacific Corp.'s top job last year was another winner. UP's successful merger with Southern Pacific Railroad Corp. earned him a special \$4 million bonus. That came on top of a \$1 million salary, a \$2 million regular bonus, \$131,000 in tax paybacks, and a \$3.7 million, five-year consulting deal. Board members say Lewis gave UP "a solid foundation to grow."

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If you feel unusually tired or sick to your stomach, have flu-like symptoms, or notice that your skin is yellowish, or if you have dark urine or pale stools, stop taking SPORANOX and notify your doctor immediately. If you're pregnant or considering pregnancy, you should not take SPORANOX. Take SPORANOX only as directed by your doctor, and report any adverse effects to your doctor as soon as possible.



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WARNING: Concomitant use of itraconazole with astemizole is contraindicated. Serious cardiovascular adverse events, including death, ventricular tachycardia, and torsades de pointes have occurred in patients taking itraconazole concomitantly with terfenadine. These events have occurred at therapeutic concentrations caused by itraconazole. See CONTRAINDICATIONS, WARNINGS, and PRECAUTIONS sections.

Another oral azole antifungal, ketoconazole, inhibits the metabolism of astemizole, resulting in elevated plasma concentrations of astemizole and its active metabolite desmethylastemizole, which may prolong QT intervals. Based on results of an *in vitro* study and the chemical resemblance of itraconazole and ketoconazole, concomitant use of astemizole and itraconazole is contraindicated. See CONTRAINDICATIONS, WARNINGS, and PRECAUTIONS sections.

Coadministration of cisapride with itraconazole is contraindicated. Serious cardiovascular adverse events including death, ventricular tachycardia, and torsades de pointes have occurred in patients taking itraconazole concomitantly with cisapride. See CONTRAINDICATIONS, WARNINGS, and PRECAUTIONS sections.

INDICATIONS AND USAGE

Systemic Fungal Infections: Itraconazole capsules are indicated for the treatment of the following systemic fungal infections:

2. Histoplasmosis, including chronic cavitary pulmonary disease and disseminated, non-meningeal histoplasmosis.

Contraindications: Concomitant use of itraconazole with astemizole or terfenadine is contraindicated. Concomitant use of itraconazole with cisapride is contraindicated. See CONTRAINDICATIONS, WARNINGS, and PRECAUTIONS sections.

CONTRAINDICATIONS

Coadministration of terfenadine, astemizole or cisapride with SPORANOX (itraconazole capsules) is contraindicated. (See BOX WARNING, WARNINGS, and PRECAUTIONS sections.)

Concomitant administration of SPORANOX with oral triazolam or with oral midazolam is contraindicated. (See PRECAUTIONS section.) SPORANOX should not be administered for the treatment of onychomycosis to pregnant patients or to women contemplating pregnancy. SPORANOX is contraindicated in patients who have shown hypersensitivity to the drug or its excipients. There is no information regarding cross hypersensitivity between itraconazole and other azole antifungal agents. Caution should be used in prescribing SPORANOX to patients with hypersensitivity to antifungal agents.

WARNINGS

In U.S. clinical trials prior to marketing, there have been three cases of reversible idiosyncratic hepatitis reported among more than 2500 patients taking SPORANOX (itraconazole capsules). One patient outside the U.S. developed fulminant hepatitis and died during SPORANOX administration. Since this patient was on multiple medications, the causal association with SPORANOX is uncertain. If clinical signs and symptoms consistent with liver disease develop that may be attributable to itraconazole, SPORANOX should be discontinued.

Prior to U.S. marketing, there have been three cases of life-threatening cardiac dysrhythmias and one death reported in patients receiving terfenadine and itraconazole. (See BOX WARNING, CONTRAINDICATIONS, and PRECAUTIONS sections.)

Coadministration of astemizole with SPORANOX is contraindicated. (See BOX WARNING, CONTRAINDICATIONS, and PRECAUTIONS sections.)

Concomitant administration of oral ketoconazole with cisapride has resulted in markedly elevated cisapride plasma concentrations, prolonged QT intervals, and has rarely been associated with ventricular arrhythmias and torsades de pointes. Due to potent *in vitro* inhibition of the hepatic enzyme system mainly responsible for the metabolism of cisapride (cytochrome P450 3A4), itraconazole is also expected to markedly raise cisapride plasma concentrations; therefore, concomitant use of cisapride with SPORANOX is contraindicated. (See BOX WARNING, CONTRAINDICATIONS, and PRECAUTIONS sections.)

PRECAUTIONS

General: Hepatic enzyme test values should be monitored in patients with preexisting hepatic function abnormalities. Hepatic enzyme test values should be monitored periodically in all patients receiving continuous treatment for more than one month or at any time a patient develops signs or symptoms suggestive of liver dysfunction.

SPORANOX (itraconazole capsules) should be administered after a full meal.

Under fasted conditions, itraconazole absorption was decreased in the presence of decreased gastric acidity. The absorption of itraconazole may be decreased with the concomitant administration of antacids or gastric acid secretion suppressors. Studies conducted under fasted conditions demonstrated that administration with 8 ounces of a cola beverage resulted in increased absorption of itraconazole in AIDS patients with relative or absolute achlorhydria. This increase relative to the effects of a full meal is unknown.

Information for patients: Patients should be instructed to take SPORANOX with a full meal.

Patients should be instructed to report any signs and symptoms that may suggest liver dysfunction so that the appropriate laboratory testing can be done. Such signs and symptoms may include unusual fatigue, anorexia, nausea and/or vomiting, jaundice, dark urine or pale stool.

Drug interactions: Both itraconazole and its major metabolite, hydroxyitraconazole, are inhibitors of the cytochrome P450 3A4 enzyme system. Coadministration of SPORANOX and drugs primarily metabolized by the cytochrome P450 3A4 enzyme system may result in increased plasma concentrations of the drugs that could increase or prolong both therapeutic and adverse effects. Therefore, unless otherwise specified, appropriate dosage adjustments may be necessary.

Coadministration of terfenadine with SPORANOX has led to elevated plasma concentrations of terfenadine, resulting in rare instances of life-threatening cardiac dysrhythmias and one death. (See BOX WARNING, CONTRAINDICATIONS, and WARNINGS sections.)

Another oral azole antifungal, ketoconazole, inhibits the metabolism of astemizole, resulting in elevated plasma concentrations of astemizole and

ketoconazole, has a less pronounced effect on the biotransformation system responsible for the metabolism of astemizole. Based on the chemical resemblance of itraconazole and ketoconazole, concomitant use of astemizole with itraconazole is contraindicated. (See BOX WARNING,

Human pharmacokinetics data indicate that oral ketoconazole potently inhibits the metabolism of cisapride resulting in an eight-fold increase in the mean AUC of cisapride. Data suggest that coadministration of oral ketoconazole and cisapride can result in prolongation of the QT interval on the ECG. *In vitro* data suggest that itraconazole also markedly inhibits the biotransformation system mainly responsible for the metabolism of cisapride; therefore concomitant administration of SPORANOX with cisapride is contraindicated. (See BOX WARNING, CONTRAINDICATIONS, and WARNINGS sections.)

Coadministration of SPORANOX with oral midazolam or triazolam has resulted in elevated plasma concentrations of the latter two drugs. This may potentiate and prolong hypnotic and sedative effects. These agents should not be used in patients treated with SPORANOX. If midazolam is administered parenterally, special precaution is required since the sedative effect may be prolonged. (See CONTRAINDICATIONS section.)

Coadministration of SPORANOX and cyclosporine, tacrolimus or digoxin has led to increased plasma concentrations of the latter three drugs. Cyclosporine, tacrolimus and digoxin concentrations should be monitored at the initiation of SPORANOX therapy and frequently thereafter, and

There have been rare reports of rhabdomyolysis involving renal transplant patients receiving the combination of SPORANOX, cyclosporine, and the HMG-CoA reductase inhibitors lovastatin or simvastatin. Rhabdomyolysis has been observed in patients receiving HMG-CoA reductase inhibitors administered alone (at recommended dosages) or concomitantly with immunosuppressive drugs including cyclosporine.

When SPORANOX was coadministered with phenytoin, ritonavir, or H. antagonists, reduced plasma concentrations of itraconazole were reported. The physician is advised to monitor the plasma concentrations of itraconazole when any of these drugs is taken concurrently, and to increase the dose of SPORANOX if necessary. Although no studies have been conducted, concomitant administration of SPORANOX and phenytoin may alter the metabolism of phenytoin; therefore, plasma concentrations of phenytoin should also be monitored when it is given concurrently with SPORANOX.

It has been reported that SPORANOX enhances the anticoagulant effect of coumarin-like drugs. Therefore, prothrombin time should be carefully

plasma concentrations of azole antifungal agents are reduced when given concurrently with itraconazole. Itraconazole plasma concentrations should be monitored when SPORANOX and isoniazid are coadministered.

Hyperglycemia has been reported in patients concomitantly receiving azole antifungal agents and oral hypoglycemic agents. Blood glucose concentrations should be carefully monitored when SPORANOX and oral hypoglycemic agents are coadministered.

Edema and decreased hearing have been reported in patients concomitantly receiving SPORANOX and quinine. Edema has been reported in patients concomitantly receiving SPORANOX and dihydropyridine calcium channel blockers. Appropriate dosage adjustments may be necessary.

Results from a study in which eight HIV-infected individuals were treated with zidovudine, 8 ± 0.4 mg/kg/day, showed that the pharmacokinetics of zidovudine were not affected during concomitant administration of SPORANOX, 100 mg b.i.d.

Reproductive Toxicity and Impairment of Fertility: Itraconazole showed no evidence of carcinogenicity potential in mice treated orally for 24 months at dosage levels up to 80 mg/kg/day (approximately 10x the maximum recommended human dose [MRHD]). In rats treated orally for 24 months at dosage levels up to 80 mg/kg/day (11x MRHD), there was an increased incidence of soft tissue sarcomas. These sarcomas may have been a consequence of hypercholesterolemia, which is a response of rats, but not dogs or humans, to chronic itraconazole administration. Female rats treated with

50 mg/kg/day (6.25x MRHD) had an increased incidence of squamous cell carcinoma of the lung (2/50) as compared to the untreated. Although the occurrence of squamous cell carcinoma in the lung is extremely uncommon in untreated rats, the increase in this study is statistically significant.

Itraconazole produced no mutagenic effects when assayed in appropriate bacterial, non-mammalian and mammalian test systems.

Itraconazole did not affect the fertility of male or female rats treated orally with dosage levels of up to 40 mg/kg/day (5x MRHD) even though parental toxicity was present at this dosage level. More severe signs of parental toxicity, including death, were present in the next higher level, 160 mg/kg/day (20x MRHD).

Pregnancy: Teratogenic Effects. Pregnancy Category C. Itraconazole was found to cause a dose-related increase in maternal toxicity, embryotoxicity and teratogenicity in rats at dosage levels of approximately 40-160 mg/kg/day (5-20x MRHD) and in mice at dosage levels of approximately 80 mg/kg/day (10x MRHD). In rats, the teratogenicity consisted of major skeletal defects; in mice it consisted of encephalopathy and malocclusion.

There are no studies in pregnant women. SPORANOX should be used for the treatment of systemic fungal infections in pregnancy only if the benefit outweighs the potential risk. SPORANOX should not be administered for the treatment of onychomycosis to pregnant patients or women contemplating pregnancy. SPORANOX should not be administered to women of child-bearing potential for the treatment of onychomycosis unless they are taking effective measures to prevent pregnancy and the patient begins therapy on the second or third day of the next normal menstrual period. Effective contraception should be continued throughout SPORANOX therapy and for 2 months following treatment.

Nursing Mothers: Itraconazole is excreted in human milk; therefore, SPORANOX should not be administered to nursing women.

Pediatric Use: The efficacy and safety of SPORANOX have not been established in pediatric patients. No pharmacokinetic data are available in children. A small number of patients age 3 to 16 years have been treated with 100 mg/day of itraconazole for systemic fungal infections; no serious unexpected adverse effects have been reported.

In three toxicology studies using rats, itraconazole induced bone defects at dosage levels as low as 20 mg/kg/day (2.5x MRHD). The defects included reduced bone plate activity, thinning of the zona compacta of the large bones and increased bone fragility. At a dosage level of 160 mg/kg/day (20x MRHD) over one year or 160 mg/kg/day (20x MRHD) for six months, itraconazole induced small tooth pulp with hypoplasia and appearance in some rats.

While no such bone toxicity has been reported in adult patients, the long term effect of itraconazole in pediatric patients is unknown.

HIV-infected Patients: Because hypochlorhydria has been reported in HIV-infected individuals, the absorption of itraconazole in these patients may be decreased.

The results from a study in which eight HIV-infected individuals were treated with zidovudine, 8 ± 0.4 mg/kg/day, showed that the pharmacokinetics of zidovudine were not affected during concomitant administration of SPORANOX, 100 mg b.i.d.

ADVERSE REACTIONS

In U.S. clinical trials prior to marketing, there have been three cases of reversible idiosyncratic hepatitis reported among more than 2500 patients. One patient outside the U.S. developed fulminant hepatitis and died during SPORANOX (itraconazole capsules) administration. Because the patient was on multiple medications, the causal association with SPORANOX is uncertain. (See WARNINGS section.)

ONCHOMYCOSIS

Adverse events in the following table led to either temporary or permanent discontinuation of treatment:

Body System / Adverse Event	Incidence (%) (n=112)
Elevated Liver Enzymes (≥2x normal range)	4*
Gastrointestinal Disorders	4*
Rash	3*
Hypertension	2*
Orthostatic Hypotension	1*
Headache	1*
Malaise	1*
Myalgia	1*
Vasculitis	1*
Other	1*

SYSTEMIC FUNGAL INFECTIONS

Adverse experience data in the following table are derived from 402 patients treated for systemic fungal disease in U.S. clinical trials, who were immunocompromised or receiving multiple concomitant medications. Of these patients, treatment was discontinued in 10.5% of patients due to adverse events. The median duration before discontinuation of therapy was 81 days, with a range of 2-776 days. The table lists adverse events reported by at least 1% of patients.

Body System / Adverse Event (Incidence ≥ 1%)	Incidence (%)
Gastrointestinal Disorders	
Nausea	1.8
Vomiting	3.1
Diarrhea	3.3
Abdominal Pain	1.5
Stomatitis	1.2
Body as a Whole	
Edema	1.8
Fatigue	1.5
Fever	2.5
Malaise	1.2
Skin and Appendages	
Rash	8.8*
Pruritus	2.5
Central and Peripheral Nervous System	
Headache	3.8
Dizziness	1.7
Psychiatric Disorders	
Libido decreased	1.2
Somnolence	1.2
Cardiovascular Disorders	
Hypertension	2.2
Metabolic and Nutritional Disorders	
Hypokalemia	2
Urinary System Disorders	
Albuminuria	2
Liver and Biliary System Disorders	
Hepatic function abnormal	2.2*
Reproductive Disorders, Male	
Impotence	1.2

*Rash tends to occur more frequently in immunocompromised patients receiving immunosuppressive medications.

Adverse events infrequently reported in all studies included constipation, gastritis, depression, insomnia, tinnitus, menstrual disorder, arthralgia, myalgia, and male breast pain.

In worldwide postmarketing experience with SPORANOX, allergic reactions including rash, pruritus, urticaria, angioedema and in rare instances anaphylaxis and Stevens-Johnson syndrome, have been reported. Marketing experiences have also included reports of elevated liver enzyme levels and rare hepatitis. Although the causal association with SPORANOX is uncertain, rare hyperglycemia and isolated cases of neuropathy have also been reported.

OVERDOSAGE

Itraconazole is not removed by dialysis. In the event of accidental overdosage, supportive measures, including gastric lavage with sorbitol solution, should be employed.

No significant lethality was observed when itraconazole was administered orally to mice and rats at dosage levels of 320 mg/kg or to dogs at 160 mg/kg.

Rev. April 1995, September 1995

world leader in antifungal research

JANSSEN



PHARMACEUTICA
RESEARCH FOUNDATION

Titusville, NJ 08561-0200

er Shawmut National Corp. CEO Joel Alvord. He collected a severance package of \$15.5 million in cash plus bonuses and \$1.5 million in benefits in 1996, following Fleet Financial Corp.'s \$5 purchase of Shawmut. The payout included a \$1.5 million bonus "in recognition of Mr. Alvord's long-term valuable service to Fleet"—although he was Fleet's chairman for just 13 months. Fleet says the proxy speaks for itself.

Stepping aside early to allow someone else to ascend to the throne is another justification for big payouts. That's the case with BellSouth Corp. CEO John L. Clendenin, 62, who retired on Dec. 30 after 13 years in the top slot. In addition to his \$2.7 million in pay plus options, Clendenin got a \$3 million bonus to retire early. Although BellSouth's 1996 earnings performance led its peers, its stock fell 7%.

LEP ON PERKING. You might think a departing CEO would be happy with a final paycheck and some options. But some execs use the exit contract to sell out a few final perks. When CEO Michael D. Pickett's contract with computer wholesaler Merisel wasn't renewed in 1996, among the goodies he was to keep was a Porsche with a cellular phone. He also specified that his crystal chess set and popcorn popper would go home with him.

According to General Electric Co.'s latest proxy, CEO John F. Welch, who collected some \$28.2 million in salary, bonus, and exercised stock-appreciation rights last year, is doing some detailed retirement planning. When he steps down in 2000, he'll work up to 30 days a year as a part-time "ambassador" for GE, paid at a rate equal to his departing daily salary. He'll also have use of GE facilities—from the copier to the corporate jet—for free. GE spokesman Bruce Bunch says Welch's role in creating over \$150 billion in shareholder value means that it's "in shareowners' interests that his services would be available."

Pay watchers say that the amounts being awarded to departing executives are strictly a measure of what the current market will bear. "The days are gone when the board has the flexibility to get rid of someone without a big financial settlement," says Carol Bowie, editor of *Executive Compensation Reports*, a Fairfax (Va.)-based newsletter. More than ever, out of sight is hardly out of pocket.

By Jennifer Reingold in New York, this bureau reports

EXECUTIVE SUITE

FORD STARTS TO GET THE LEAD OUT

As Trotman stays on, Nasser pushes to show his stuff

Ford Motor Co.'s automotive president, Jacques A. Nasser, delivered a dramatic performance on Mar. 17—part of the biggest audition of his career. In a St. Patrick's Day massacre, he snuffed out four slow-selling car models. In addition, he announced plans to lay off 2,500 workers—the most severe cuts in 15 years. That was just what Ford's board was looking for. "We are moving quickly," says Nasser. "The question is: Are we moving quickly enough?"

Ford's board is giving Nasser extra time to answer the question. On Mar. 13, it tacked 18 months on to the tenure of Chairman and CEO Alexander J. Trotman, 63, who will stay until Jan. 1, 2000. Prior to the meeting, as reported earlier (BW—Mar. 24), some board members were not inclined to extend Trotman's time at the top until they saw some improvement in Ford's auto earnings, which are the lowest of the Big Three.

But at the Mar. 13 meeting, the board decided that Trotman needed more time to allow his sweeping global reorganization to pay the big dividends that he has promised. Just as important, the directors wanted more time to size up Nasser, say sources close to the board. At 49, Nasser has the potential to be the longest-serving top executive since Henry Ford II, who ran the company from 1945 to 1980. Directors feel that they don't yet know Nasser well enough, and they believed he would not have had enough time to prove himself if Trotman retired as planned on his 65th birthday—in July, 1998—the sources say.

The directors are cheered that Nasser is demonstrating the cost-

cutting acumen that has earned him the nickname "Jac the Knife." He showed his stuff with his decision to shut down the car line of an Ohio factory and to drop the slow-selling Thunderbird, Probe, Aerostar, and Mercury Cougar. But that is not enough. "Now, he has to show he can create profitable products," says a source familiar with the board's deliberations.

DARK HORSE. Indeed, sources say that the board is not easing up on Trotman and Nasser: Its members are alarmed about Ford automotive profit margins, which sank to 1.4% last year, down from 1.9% in 1995. But directors believed they needed to endorse Trotman so he could bring about a turnaround, the sources say.

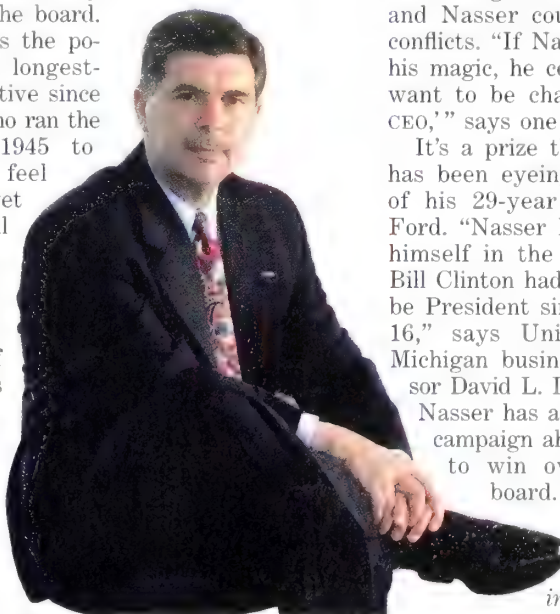
Nasser is not the only one under board review. Chief Financial Officer John M. Devine is a dark-horse candidate for the CEO job, but

CEO TILL 2000
Trotman's program needs time to run its course, and the board needs time to size up possible replacements

he lacks automotive experience. Directors also are trying to determine whether William Clay Ford Jr., 39, great-grandson of Henry Ford, should become nonexecutive chairman. Some large investors have raised concerns that power-sharing between Ford and Nasser could lead to conflicts. "If Nasser works his magic, he could say: 'I want to be chairman and CEO,'" says one investor.

It's a prize that Nasser has been eyeing for most of his 29-year career at Ford. "Nasser has primed himself in the same way Bill Clinton had wanted to be President since he was 16," says University of Michigan business professor David L. Lewis. Now, Nasser has a three-year campaign ahead of him to win over Ford's board.

By
Keith
Naughton
in Detroit



DETROIT

TRUCK SALES: UNSAFE AT THIS SPEED

Have the Big Three just hit a bump—or is the problem deeper?

It's as close as Detroit comes to a sure thing. The booming \$42 billion market for full-size pickup trucks has been the U.S. auto industry's last unchallenged bastion of profits and market share. With baby boomers flocking to gussied-up, extended-cab Ford F-150s, Chevy C/Ks, and Dodge Rams, big pickup sales surged to 1.85 million units last year, up 78% in five years. And most auto forecasters expect those sales to keep growing well into the next decade.

So it was quite a surprise when big pickups hit a bump late last year. Sales flattened in November, then declined for three straight months. Christopher W. Cedergren of auto consultants Nextrend Inc., believes rising sticker prices are to blame: "The fundamental issue is affordability." But even if the pickup skid proves temporary, as most car-makers, dealers, and analysts expect, it could be a signal that the road is getting bumpy for the Big Three.

ROAD WORRIERS. The route is, however, a familiar one for Detroit executives. The markets for minivans and sport utilities already have become crowded with domestic and Japanese competitors. Compact pickup trucks have been waning in popularity, and tough Japanese competition there keeps profits razor-thin. While Motown still dominates the overall category of light trucks with 86% market share, it lost 1.8 points of share in the U.S. in January and February alone.

STUCK ON THE LOT

Stocks of once hot models, such as Chevy C/Ks, are rising

The assault on U.S. truck hegemony comes at a bad time. Roaring truck sales have been masking a steady erosion of sales and market share in passenger cars, where the Japanese and Europeans have been gaining ground. The Big Three now hold just 60.7% of car share, down nearly 5 points from a year earlier. Declining sales forced Ford Motor Co. to announce on Mar. 17 the elimination of three car models, including the storied Thunderbird, as well as the aging Aerostar minivan (page 45). If truck growth slows, Detroit could be stuck with costly plants it would have to close or convert to car production. Susan G. Jacobs, an independent auto industry consultant based in Rutherford, N.J., figures that General Motors Corp. and Toyota Motor Corp. alone plan to add 375,000 units of full-size pickup production capacity by 2000, but she predicts industrywide sales will rise only 250,000 units.

The resulting race to steal market share could wallop Detroit's bottom line. Gross profits on trucks average \$6,000 to \$10,000, more than double those on cars, estimates George C. Peterson, president

of AutoPacific Group Inc. in Thousand Oaks, Calif. Even now, auto makers are offering more rebates and lease deals to lure customers into slower-selling minivans and sport utilities—the way they have moved passenger cars, at the expense of profits, in recent years. A Spinella of CNW Marketing/Research, Bandon, Ore., estimates that the average truck incentive of \$2,200 a vehicle is 52% higher than two years ago. Although car incentives remain higher, averaging \$2,900 per vehicle, they have risen only 6% in that time.

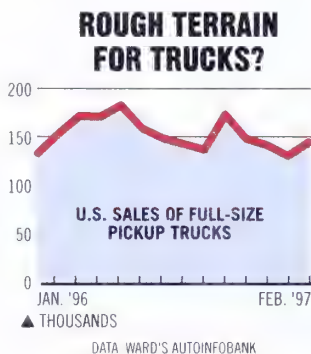
Still, inventories of some trucks are double-parked in sales lots. At the end of February, U.S. dealers held a hefty

78-day supply of trucks, vs. 64 days for cars. (A 60-day supply is the norm.) Then there was a 73-day supply of the newest entry in the large-pickup segment, Ford's F-series, and GM had a 79-day stock of its aging C/K pickup. Chrysler says its truck business, which accounts for two-thirds of sales, fell 2.6% in January and

February from year-earlier levels.

Steven A. Torok, Chrysler Corp.'s executive director of sales and marketing, insists there's no problem, despite Dodge Ram's 7% slide this year. Indeed, most dealers and analysts are calling the sudden skid in large pickup sales a seasonal fluke. Too mild a winter, say one Pennsylvania dealer, explaining that blizzards are what persuade many consumers to snap up four-wheel-drive trucks. No, says another in Wisconsin, was severe weather that kept shoppers at home. The auto industry will be watching pickup sales closely this spring to see whether the winter slump was a blip—or the beginning of the end of once sure thing.

By Kathleen Kerwin in Detroit



By Howard Gleckman

IRS REFORMS ARE ONLY A GOOD START

Spring is in the Washington air. And as Apr. 15 nears, the atmosphere is redolent with those perennial pledges by politicians to fix the agency everyone loves to hate: the Internal Revenue Service.

They're all looking for ways to make the nation's tax collector more efficient—and, as they say in the marketing biz, more "customer-friendly."

To get ahead of the parade, the Clinton Administration has come up with its own plan. The Treasury Dept. is aiming to improve the IRS's overall structure rather than just tinker. Among the useful suggestions: strengthen management by creating an independent oversight board and giving Treasury tighter control over the quasi-independent operation; hire a manager instead of a tax lawyer as IRS commissioner; and give the new boss unprecedented flexibility to hire, fire, and set pay. Says former IRS Commissioner Fred T. Goldberg Jr.: "They have acknowledged that there are fundamental management issues, and they are moving in the right direction."

FEW HOWLS. This year, the agency is rolling through tax season with few problems. As of Mar. 7, 20% more taxpayers had filed either by phone or computer than at the same time last year. And with less than a month to go, there have been few howls about delayed refunds.

But one crisis-free tax season can't mask the agency's long-term woes. The IRS figures that more than \$100 billion in back taxes have gone uncollected. The percentage of audited returns has been cut in half—to a mere 1%—in recent years. The \$3.3 billion the IRS has spent in the past decade on computer modernization has been a bust. Worst of all, the agency still

has no coherent plan for upgrading all those creaky computers. On Mar. 5, the IRS conceded that at least \$440 million earmarked for computer upgrades has simply been wasted.

As a first step, the Administration plan is a good one. Bringing in an outsider with management experience, instead of another member of the club—by tax bar, recognizes

specialists, because it can't come close to competing with private market pay. Treasury's plan would free the agency to be more businesslike in how it fires and allow it to break through government pay ceilings when it hires. More important, these proposals could be copied elsewhere in the bureaucracy.

BILLIONS SPENT: IRS computers are still clunkers

But the IRS faces some problems that are beyond the current fix-up plan. The changes, laid out on Mar. 17 by Treasury Deputy Secretary Lawrence H. Summers, are a good start. But they don't get at the underlying problem: The IRS must administer a devilishly complex tax code that gets worse each year.

The culprits are not bureaucrats but the politicians who write the tax laws. House Ways & Means Committee Chairman Bill Archer (R-Tex.) is right when he says "the crux of the problem is the tax system itself." Trouble is, while he eventually wants to scrap the income tax for a simpler consumption levy, these days he's



FINAL ANSWER To end the public's disgust with the tax collector, Washington ultimately must simplify the tax code

that the IRS's role isn't just to write regulations but to extract money from taxpayers in the least painful way possible. The plan also reflects what business has learned in recent years: Solving information-technology problems isn't a matter of buying the fastest whiz-bang gear. It requires first figuring out what you want to do, then designing the hardware and software to make it happen.

The farthest-reaching reform may be the commissioner's new management flexibility. Today, with the IRS in the midst of major layoffs, it is forced to protect jobs on the basis of seniority rather than competence. At the same time, it struggles to get top-notch lawyers and computer spe-

pushing new complexities, such as cutting the capital-gains tax. And while Clintonites pay lip service to simplicity, their budget is loaded with complicated new tax breaks—for children, education, and savings.

If Congress and the White House really want to make filing a tax return simple, they should stop junking up the code with new goodies. And they should pledge to clean out much of the rubbish that is already there. In the meantime, following through with Treasury's plan will at least repair the IRS itself.

Senior Correspondent Gleckman covers political and economic trends from Washington.

EDITED BY KELLEY HOLLAND & PETER COY

AMERICAN'S PILOTS HAVE PENS IN HAND

COMING IN FOR A LANDING: American Airlines and negotiators for its pilots' union were close to a contract agreement on Mar. 19 that would avert a strike on Apr. 28, say sources on both sides. The deal would sweeten the pay and stock options offered in a contract that the pilots nixed in early January. The new deal—which still must pass the union's board on Mar. 21 and be approved by the rank and file—is expected to give pilots a 9% raise through Aug. 2001. That's higher than the 5% raise in the rejected pact, but the contract has been extended by a year. American would maintain the right to fly small, re-

gional jets in its AMR Eagle commuter operation, whose lower-paid pilots are represented by a different union. American's 9,300 pilots briefly struck on Feb. 15, but President Clinton intervened.

RUPERT'S EYE IS ROVING AGAIN

RUPERT MURDOCH CAN'T RESIST a good deal. Just weeks ago, News Corp. announced that it would shed "noncore" assets to focus on businesses like satellite television. But on Mar. 17, Murdoch's company agreed to spend \$754 million for a marketing company—Dallas-based Heritage Media, whose products include machines that sit on supermarket shelves and dispense coupons. Murdoch plans to sell Heritage's TV and radio stations to pay off debt. Sources say Murdoch also recently considered a bid to buy PointCast, the Cupertino (Calif.) Internet startup for \$500 million. PointCast says it has received some unsolicited buyout offers but plans to remain independent.

SHELL AND TEXACO TIE A KNOT

ON MAR. 18, SHELL OIL AND Texaco agreed to combine some refining and gasoline marketing operations in a new joint-venture company. It's the latest in a rash of alliances seeking to boost profits in a brutally competitive section of the oil business. If approved, the joint venture would have 6% of all U.S. refining capacity and almost 15% of U.S. gasoline sales. And the companies want more: They are discussing combining with Star Enterprise, the Texaco/Saudi Arabian venture that owns Texaco's East Coast and Gulf Coast refining and marketing operations. If the three do manage to combine assets, it would create a powerhouse

HEADLINER: ERIC SCHMIDT

NOVELL'S NEW NABOB

Just when it seemed that Novell would never find a suitable CEO, the struggling network software maker announced a coup. On Mar. 18, it snagged Eric Schmidt, 41, a pioneer of networked computing who is chief technology officer of Sun Microsystems.

The appointment ends a search for a replacement for Robert Frankenberg, who left in August. Frankenberg refocused Novell on networking after a distracting series of acquisitions by founder Raymond Noorda. But he couldn't stem a slide in sales, earnings, and market share.

Novell's stock, which hit 26 in February, 1994, is trading around 9.

What drew Schmidt to Novell? "There are tremendous assets that are not well-known," says Schmidt, who confesses to a "passion for protocols."

Novell has more than 50 million customers and a technology even Microsoft can't match: "directory services" for tracking and managing all of the resources on a network. Schmidt's pals also figure he'll push the Java software he helped bring forth at Sun.

By Amy Cortese

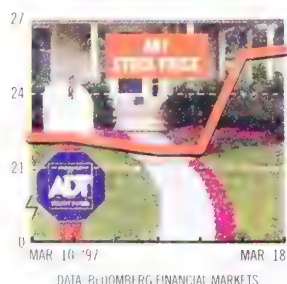


CLOSING BELL

ALARM ANSWERED

Executives of ADT, the alarm company, thought they were being robbed by a lowball offer from Western Resources. So they found a friendly merger partner, Tyco International, based in Exeter, N. H., and structured the deal to foil Western. Shares of ADT, based in Boca Raton, Fla., rose 18%, to 25%, on Mar. 17 on news of the deal.

The complex merger—in which ADT is technically the acquirer but Tyco would be the surviving entity—was worth \$29 a share to ADT when the deal was struck. Western says it is reviewing its rights as ADT's largest shareholder.



with nearly twice the share of gasoline sales of current leader Mobil Oil.

STARBUCKS' USE OF THE OLD BEAN

STARBUCKS HESITATED FOR weeks before boosting the price of a tall cup of java by five cents to \$1.20 on Mar. 14. Too bad for caffeine addicts it didn't hold off another three days. Prices of coffee futures, which more than doubled from Dec. 6 to Mar. 14, plummeted on Mar. 17, thanks to rising inventories. Sadly, this price hike is good to the last drop. Starbucks wants a profit cushion to protect itself from the next jump in java futures.

A POSSIBLE RUN ON SPRINT

IS ANOTHER MAJOR TELECOM merger on the way? Britain's Cable & Wireless is consider-

ing a takeover bid for Sprint according to a Mar. 19 article in *The Wall Street Journal*. Cable & Wireless talked to France Télécom, which owns 10% of Sprint, to line up support for a possible bid, the paper says. Both Sprint and France Télécom criticized the report—but didn't deny that any deal was possible. The real story? C&W's aggressive new CEO, Richard Brown, is interested in expansion. But a deal would face major regulatory hurdles.

ET CETERA...

- PepsiCo has a five-year, \$50 million marketing deal with big-league baseball.
- Saudi Prince Alwaleed bin Talal bought a 5% stake in Trans World Airlines.
- The FCC will allow Teledec to build and launch 84 satellites.
- R. R. Donnelley hired William Davis as CEO to replace John Walter.

EDITED BY OWEN ULLMANN

A BALANCED BUDGET? DON'T WORRY, A DEAL IS ON THE WAY

This year's strange-but-true budget talks between the Clinton White House and the Republican Congress have resembled a rollercoaster, careening from despair to hope. The outlook for a balanced-budget deal plummeted in mid-March when President Clinton rejected a plan to fix the consumer price index. But prospects soared when House Speaker Newt Gingrich (R-Ga.) made a stunning offer to postpone cherished GOP tax cuts for an agreement. That prompted a buoyant Clinton to invite GOP budgeteers to a make-nice session at the White House on Mar. 19. What's going on here? Despite political posing, both sides are barreling toward an accord. It won't be easy, and agreement may come later rather than sooner. But Clinton and GOP leaders on Capitol Hill are united by a mutual fear of failure. Clinton wants history to portray him as the President who finally licked the deficit. And Republicans worry that if they're blamed for breaking the talks, voters will seek revenge in November. As Clinton noted after his budget confab, "We have to do it this year."

POLITICAL BUZZ SAW. Still, there are huge obstacles to overcome. For starters, there's deep distrust between the White House and Hill conservatives, who believe they were outmaneuvered by Clinton during the contentious 1995 budget talks. A bigger problem may be growing feuds within each party that threaten to alienate the rank and file from their leaders. Liberal Democrats won't accept a budget deal that cuts too deeply into Social Security or Medicare. Clinton's challenge is to convince the Democrats to accept modest Medicare spending curbs and a reduction in the cost-of-living formula for retirement programs. Most economists believe the CPI overstates the rate of inflation—at a cost of tens of billions annually to the Treasury. But White House Chief of Staff Erskine B. Bowles ran into a political buzz saw when he

broached Senate Majority Leader Trent Lott's idea of creating a commission to fix the COLAS. Liberal Dems blasted the proposal as a backdoor way to finance GOP tax cuts for the wealthy. The result: Clinton pulled the plug on it.

Republicans are tied in knots over taxes. Despite Gingrich's cut-taxes-later overture, GOP supply siders are balking. "To contemplate a Republican budget without tax cuts is shameful," says Representative David M. McIntosh (R-Ind.). In the Senate, Lott vows to fight for tax cuts. Some party strategists see un-civil war ahead. "It's a briar patch," concedes one senior GOP House staffer.

Still, negotiators on both sides find positive signs in the bipartisan discomfort. "What you're seeing is people grappling with the realities of the budget," says Gene Sperling, director of the President's National Economic Council. "We're searching for common ground." A Lott adviser says Newt's entreaty "clears away the underbrush" and gives Clinton a path to compromise. "Republicans are giving everything they can to allow Clinton to cut a deal."

The likely contours of a final pact would contain most of the cuts Clinton has proposed for domestic programs, some GOP spending reductions, a compromise on curbing Medicare growth, and a handful of Clinton initiatives—primarily new education programs. The clincher: a reduction in Social Security COLAS of up to 0.4 percentage points,

based on a technical recalibration by the nonpartisan Bureau of Labor Statistics. That will provide enough extra cash to buy off conservative Republicans with a small middle-class tax cut and possibly a targeted capital-gains reduction. "Both sides may come to the table dripping with blood to cut the final deal," concedes a senior Administration official.

Indeed, there's brutal combat ahead. But Clinton and GOP leaders believe they've come too far to turn back now.

By Richard S. Dunham, with Mike McNamee



NEWT: Compromising

CAPITAL WRAPUP

HUNDT'S HOSTILE HINT

Federal Communications Commission Chairman Reed E. Hundt is pushing broadcasters to speed the rollout of digital TV. Hundt is signaling he won't give licenses for new broadcast spectrum as planned in April until the industry vows to begin phasing in digital within a year. Broadcasters, who may use the spectrum for other services, say it will take at least two years to launch the switch. FCC Commissioner Susan Ness is working on a compromise.

READING THE SMOKE SIGNALS

► The White House is monitoring the mega-negotiations launched last summer to settle 22 state lawsuits against the tobacco industry. President Clinton's legal troubleshooter, Bruce R. Lindsey, has been meeting with aides of Minnesota Attorney General Hubert H. Humphrey III to discuss settlement proposals. Humphrey also met with Vice-President Al Gore. Lindsey hasn't consulted Congress yet because the states haven't agreed on the outlines of a possible deal.

DEATH AND TAXES

► Congress can't seem to pass campaign finance reform or cut taxes, but it's having no trouble taking a stand against assisted suicide. A bill to ban the use of federal funds to help people kill themselves is speeding through the House. Trouble is, federal funds aren't now being used for suicide—and there's virtually no chance they ever will be. Since more than 35 states already ban assisted suicide, the Hill measure "is a big waste of time," scoffs a House staffer.

EUROPE

FLYING CHEAP IN EUROPE

Full deregulation of air travel looks like a bonanza for passengers



Karl-Heinz Jörk is not a popular guy. As in-house travel manager for German electronics giant Siemens, he has decreed that everyone but top brass must fly economy class in Europe. With hundreds of employees in the air on any given day, he also drives hard bargains with airlines. Jörk has sliced his annual budget of \$1.2 billion by 10%, even though the number of trips taken is up. Colleagues grumble, but "I'm not sending people on kamikaze airlines," retorts Jörk.

His job may soon get easier. On Apr. 1, Europe will take the final step in its 10-year journey to total air deregulation. After that, European airlines will be able to fly between any two cities in the European Union—even on domestic flights inside another country. Since 1993, they've been able to operate between any two EU cities across a national border. But this last phase will throw open to full competition domestic routes long dominated by national flag carriers that have used their monopolies

to keep prices high. Europe's transition to open skies has been far gentler than in the U.S., where air deregulation in 1978 led to the demise of such halfhearted institutions as the original Pan American Airways Inc. Yet a shakeout looms in Europe, too, as low-cost upstarts challenge national airlines on their home turf. To cushion the blow and save jobs, governments continue to prop up such flag carriers as Air France, Alitalia, and Iberia at taxpayers' expense. But things will get nasty soon. "It's going to be much more of a dog fight than most people envisioned five years ago," says Frederick W. Reid, the 46-year-old American who will take the controls at Lufthansa on Apr. 1.

Just like U.S. upstarts such as Southwest Airlines Co., Europe's new entrants offer simpler fare structures, electronic ticketing, no meals, and low, low prices. They are exploiting a growing demand for low-frills flying by cost-conscious companies and recession-battered consumers. Brussels-based Virgin Express, Germany's Eurowings, and Britain's easyJet are targeting cheaper, secondary airports, such as London's City Airport and Berlin's Tempelhof.

Discount flights on heavily traveled routes are causing headaches for Air France and Lufthansa. And with monopolies still controlling two-thirds of all routes in Europe, new targets abound. "It's like the birth of democracy in a dictatorial state," says Franco Mancassola, chairman of Britain's nine-month-old Debonair Airways.

Of course, it will be European-style

With state monopolies still controlling two-thirds of all routes in Europe, targets for upstarts abound

democracy. Industry-watchers don't expect the Big Bang that air deregulation brought in the U.S.—largely because a European government is likely to let its flag carrier go out of business. In addition, at Europe's major state-controlled airports, governments can limit the number of slots to keep competition out. And in contrast to the U.S., airlines can't buy and sell slots without approval. So new entrants must use secondary airports or focus on less-served routes.

Nevertheless, some upstarts are already driving down fares on formerly monopolized routes. Ryanair has captured 40% of Dublin-London traffic from Aer Lingus. The result: a price drop to \$94 round trip, down from 44% from Aer Lingus' fares 10 years ago. When Norway's Braathens SAFE started flying the Stockholm-Oslo route last fall, it offered a \$263 round trip with no restrictions. Scandinavia Airlines System (SAS), which was charging \$500, launched back with new passenger benefits and a matching fare. And when Italy's Air One introduced its Rome-Milan flights a year ago, it forced Alitalia to cut its off-peak fares by 42%.

Stung, national carriers are scrambling to decide which routes makes sense to defend. Since they often lose money on short hauls, many of those will be subcontracted. Belgium's Sabena World Airlines has even its flights between Brussels and London, Barcelona, and Rome to Virgin Express.

FRANCHISING. Another tack the giants are taking is to franchise shorter routes to startup carriers that operate 30% to 40% more cheaply yet still carry the national brand name. British Airways PLC has eight franchisees, mostly under the umbrella name BA Express, flying throughout Britain and into Scandinavia, South Africa, and the Mideast. Lufthansa so far has three German franchisees flying domestic flights as Team Lufthansa, where operating costs are as much as 10 per hour lower.

A riskier way to crack new markets through subsidiaries. BA has tried to steal some German and French routes via subsidiaries Deutsche BA and Paris-based TAT European airlines, with mixed success. In France, it has also bought troubled Air Liberté, largely for access to its slots at Orly. Although it's a cost-

ly way to gain ground, Carl Michel, who heads business development for BA and will take over Deutsche BA on Apr. 1, is forging ahead with the strategy. "The good times are coming to an end for Lufthansa," he predicts.

To survive, the flag carriers are likely to rush into new alliances. Industry experts see three to five global groupings emerging over the next decade. In Europe, the most likely powerhouses will be BA, KLM Royal Dutch Airlines, and Lufthansa, which all have a powerful American partner. Will more U.S. airlines move in on Old World turf? In-

will capitalize on British Midland's new freedom to expand its feeder operations. And he expects Lufthansa to be a winner under deregulation, adding: "Every transatlantic passenger Lufthansa carries means more revenue for United."

Among the Europeans, the coming months will bring a scramble of deals. On Apr. 1, Air France and Alitalia will begin a code-sharing pact. KLM, already in an acrimonious but profitable partnership with Northwest Airlines Inc., is looking to add a southern European partner. KLM has approached Iberia, but says a U.S.-based industry source,

Northwest thinks Alitalia would be a smarter move. "The dance cards are filling up rapidly," he adds.

POLISHED BRASS. The giants are also putting tough managers into their top ranks. Swissair has hired Jeffrey Katz, most recently managing director of passenger sales for the western U.S. at American Airlines Inc., as its new president. BA's Robert Ayling, who took the reins in January, 1996, is maintaining an aggressive focus on the bottom line. In promoting Reid to president, Lufthansa has created a new unit that gives him freedom to manage the passenger business separately from the rest of the group. Before joining Lufthansa in '91, Reid ran European sales for American.

Still, some national carriers seem fated to disappear. Most vulnerable are those that have been sheltered by protected markets and government handouts. These include Alitalia, Iberia, Air Portugal (TAP), and Greece's Olympic Airways. Politicians are still trying to carry these dinosaurs. Since 1991, European governments have spent \$5 million per day keeping their planes in the air.

Yet even the most nationalistic governments will have a hard time coming up with subsidies as the rivalry heats up. And the fare wars will only escalate. Jan Krieger, a 43-year-old architect in Berlin, flies to Stuttgart once a week on business. He takes Lufthansa only when he can't get a seat on Deutsche BA—and not just because the upstart is slightly cheaper. "Deutsche BA is friendly and more relaxed," he says. Just one more thing to make the big carriers tense.

By Karen Lowry Miller in Frankfurt, with Heidi Dawley in London, Mia Trinephi in Paris, William Echikson in Brussels, and bureau reports

Where Startups Are Bringing Fares Down

Sample prices on popular routes

	LOWEST FARE	UNRESTRICTED
FRANKFURT-BERLIN		
LUFTHANSA	\$153	\$494
EUROWINGS	\$140	\$469
ROME-MILAN		
ALITALIA	\$130	\$278
AIR ONE	\$82	\$211
PARIS-TOULOUSE		
AIR FRANCE	\$88	\$350
AIR LIBERTE/TAT	\$70	\$286
STOCKHOLM-OSLO		
SAS	\$244	\$455
BRAATHENS SAFE	\$130	\$486
LONDON-BARCELONA		
BA	\$358	\$816
EASYJET	\$165	\$261

DATA: BUSINESS WEEK

dustry insiders say the big American carriers aren't interested in regional routes within Europe. But those with partnerships that feed transatlantic traffic into their domestic flights expect deregulation to boost business as the strong European airlines get stronger.

For example, United Airlines Inc. has code-sharing agreements with Lufthansa and British Midland Airways Ltd., Britain's second-largest noncharter carrier. Cyril Murphy, United's vice-president for international affairs, says UAL



RUSSIA

READY TO BURN RUBBER IN RUSSIA

Foreign carmakers are racing into the burgeoning market

Volodya Dmitriev strokes the sleek blue hood of a Skoda Felicia in the showroom of Moscow's Alan car dealership. "It's a great car," he says. "Still..." He looks over at a row of Russian-made Ladas. They start at about half the \$10,500 sticker price on the Skoda, built by a Volkswagen unit in the Czech Republic. Dmitriev goes home without deciding, but VW is working hard to lure him back. This summer, it will start assembling Skodas in Russia and neighboring Belarus, sidestepping import tariffs that account for 30% of the sticker price.

For VW and other foreign carmakers,

the green flag is out. General Motors and Daewoo are already assembling cars in the former Soviet Union. Ford and South Korea's Kia Motors will start in the next few months. Offerings from the transplants will cost thousands more than the best-selling domestic models. But the foreigners are betting that their spiffy designs and superior engineering will win over customers such as Dmitriev. If they're right, the race will be on for one of the world's great untapped auto markets. Only 83 in 1,000 Russians own a car, less than half the ownership rate in Eastern Europe.

Foreign carmakers have good rea-

THAT'S NO LADA

Are Opel sedans and Chevrolet utility vehicles too pricey for Moscow shoppers?

sons to rev their engines. Drivers stuck for years in Soviet clunkers are dying to trade up. Last year, they snapped up 50,000 imported new cars—twice what they bought in 1995. Altogether, some 850,000 new cars were sold in Russia last year, and industry analysts predict that the market will grow at least 4% annually through the end of the decade.

Governments of former Soviet republics are welcoming foreign investment in their moribund auto industries. Russia is letting GM import components for its Chevrolet Blazer duty-free, in exchange for setting up a network of parts suppliers. In January, Russian

Prime Minister Viktor Chernomyrdin drove the first Blazer off GM's assembly line in Yelabuga. Uzbekistan gave Daewoo a five-year tax holiday on the factory it opened near Tashkent last summer.

MOPPING UP. South Korean auto makers are leading the way into the market (table). Daewoo began assembling sedans from kits in the Russian city of Rostov in late 1995. Its Tashkent factory, a full-scale manufacturing operation, is expected to make 120,000 cars this year. Most will be sold in Russia, which puts minimal tariffs on Uzbeki imports. Kia Motors Corp. plans two kit operations in Kaliningrad, in Russia. One will switch to full-scale production of 50,000 cars a year by autumn.

But most auto makers are investing far less in the former Soviet Union than in emerging markets such as China. To assemble cars from kits, Ford, GM, and Skoda are setting up modest operations that will cost about \$20 million and produce no more than a few thousand units a year. The companies are holding back because of the region's still-shaky econ-

Setting Up
Shop in
the Former
Soviet Union

DAEWOO Building cars from kits in Russia and assembling 120,000 cars a year in Uzbekistan. Vying with General Motors for a partnership with Ukrainian auto maker AvtoZAZ.

FORD Starting kit assembly in Belarus in mid-1997 and in Russia in 1999.

GENERAL MOTORS Making Chevrolet Blazers from kits in Russia. Considering joint venture to build a Russian version of the Opel Astra.

KIA Opening two kit assembly plants in Russia this spring, with one to switch to full-scale production by autumn.

VOLKSWAGEN Opening kit assembly plants for Czech unit Skoda in Russia and Belarus by mid-1997.

ny, and because they don't yet have a solid distribution and service network.

No one wants to be left out, though. Car makers are still mopping up after a battle over former state auto giants in Eastern Europe, where VW beat Renault for control of Skoda, while Daewoo elbowed aside GM in Poland. Daewoo and GM now are vying for a possible joint venture with AvtoVAZ, the former Ukrainian state auto maker. "Once the economic situation stabilizes, [the former Soviet Union] can be a market of major size," says W. Wayne Booker, Ford vice-chairman for emerging markets. "It is absolutely essential that we be there."

In contrast to Eastern Europe, foreign carmakers aren't courting the now-bet-ridden companies that dominated the Soviet auto industry. Instead, most are teaming with smaller manufactur-

ers. Ford plans to build Escorts in a former Belarus tractor factory, in partnership with a local car dealership and the Belarus government. GM is talking to AvtoVAZ, maker of the Lada, about a venture to produce a Russian version of the Opel Astra. But GM wants to build a plant on the Finnish border, far from AvtoVAZ's 1960s-vintage factory near the Volga River.

Bringing sticker prices down is the biggest challenge. Russian drivers prefer spacious American cars to European models. But dream machines such as the Blazer, which retails for more than \$25,000 even without import tariffs, are too costly for most consumers. Prices for models such as the Ford Escort, now selling for \$14,100 in Moscow, should drop once they are produced in the former Soviet Union and no longer subject

to high tariffs. However, Ford is still offering even pricier brands in Russia. In early March, it introduced the Taurus family sedan, which sells for \$48,467.

There may be other bumps ahead for the auto makers. Many Russians are wary of foreign cars because they are targets for thieves and bribe-hungry traffic police. Moreover, consumer tastes are hard to predict in the chaotic rush to capitalism. After surveying Skodas and Daewoos at the Alan dealership, customer Akhmed Mirzoyev announces that he has decided to buy a Lada. "I just need something for running errands around town," he explains. "Of course, I already have a Mercedes." Nobody said figuring this market out would be easy.

By Carol Matlack in Moscow, with Keith Naughton in Detroit and David Woodruff in Bonn

GERMANY

THE LONG ARMS OF KRUPP

CEO Cromme's bid for Thyssen's steel unit will be hard to stop

Gerhard Cromme stood behind a row of plexiglas riot shields as he addressed an angry mob of steelworkers outside the Essen headquarters of Germany's Krupp group. The 54-year-old chief executive was explaining his surprise, \$8 billion hostile bid for rival steelmaker Thyssen. But the demonstrators, fearing job cuts, weren't listening. They hurled eggs and drowned him out with shouts of "string him up" and "job killer."

Such was the turbulent start of German industry's most important takeover attempt since Krupp snapped up rival Hoesch in 1992. The Thyssen bid wasn't supposed to happen until summer. But Cromme

was forced to ad lib when word of the plan leaked out on Mar. 17. "He had to live up or act," says a source familiar with Cromme's strategy.

The firestorm of protest, plus pressure from local politicians in Germany's Ruhr rust belt, have forced Cromme to back off temporarily. On Mar. 19, he agreed to suspend his bid while dis-

cussing a merger of the two companies' steel operations with Thyssen CEO Dieter H. Vogel, a good friend with whom Cromme has vacationed in the past. If the talks fail to make progress within eight days, however, Cromme has vowed to return to the trenches.

That threat has heft. Cromme, a Harvard business school graduate, deftly ex-

ecuted one of Germany's first major hostile takeovers when he acquired Hoesch five years ago. Resistance then was equally sharp. Protesting workers camped on the front lawn of his home for weeks. But Cromme persevered, ultimately trimming 25,000 jobs and proving his willingness to buck Germany's ingrained tradition of consensus decision-making.

Observers familiar with Cromme's style bet that if talks with Thyssen fail, Krupp's bid will be difficult to stop this time, too. Cromme has already lined up financing with banks such as Deutsche Bank and Dresdner Bank. "The question really is: Does he give in to political pressure or not?" says consultant Roland Berger, who helped Krupp merge with Hoesch.

MAKING NOISE. Analysts say combining the giants makes sense. They could gain economies of scale in rolled steel used in the auto and appliance industries. Together, they would produce about 2.5 million tons annually, or about 25% of Europe's output. That could help the German companies overcome their \$30-per-ton cost disadvantage. The merged operation could shed 20,000 workers and save up to \$600 million a year in operating costs. "There are significant advantages," says Rod Beddows, chairman of London-based Beddows & Co.

Although his opponents are making the most noise, Cromme has powerful supporters. Rolf-Ernst Breuer, who will become Deutsche Bank's CEO this spring, welcomed Krupp's bid. He says the takeover might serve as a model for other deals in Germany. Indeed, a more freewheeling merger culture could speed the push to reform the country's sluggish, tradition-bound economy. For the moment, though, Cromme seems to be fighting that battle on his own.

By David Woodruff in Bonn



SHIELDED: Cromme gets set to talk to demonstrators

MEXICO

STATE OF SIEGE FOR MEXICO'S RULERS

Furious voters may clobber the PRI in midterm elections



DRUG CHECK: U.S. customs inspector searches a truck at the border

An election backlash against corruption and violence in a state just south of Mexico City spells deepening woes for the long-ruling Institutional Revolutionary Party (PRI). Opposition parties won control of the Morelos legislature and four major cities in Mar. 16 elections.

The upset, presaging a potential PRI rollback in July's midterm elections, underscores the continuing erosion of the PRI's 68-year grip on power. A rash of drug scandals is adding to voter disgust. And despite the economy's gradual revival from a crushing recession, the benefits haven't yet trickled down to most Mexicans' paychecks. "People want change," says Juan Sánchez Navarro, vice-president and executive director of leading brewer Grupo Modelo. "We're witnessing the awakening of civic awareness in Mexico of a kind that hasn't been seen" since the 1910 beginning of the Mexican Revolution, he says. That means President Clinton will encounter a country in ferment when he visits Mexico on Apr. 11.

PROBERS. Following the mid-term elections, President Ernesto Zedillo Ponce de León may face a Congress eager to start investigations into corruption and a Mexico City mayor eager to make the capital into a showcase for opposition



ZEDILLO

rule. Basic Mexican economic policies are unlikely to change, because the PRI may retain a plurality in Congress and the conservative National Action Party (PAN) often sides with the government on economic issues. But both the PAN and the left-leaning Party of the Democratic Revolution (PRD)—whose candidate, Cuauhtémoc Cárdenas, leads in most polls to become the first elected mayor of Mexico City—will fight for more spending. That could slow Zedillo's economic reforms. While foreign investors may take such democratic turbulence in stride, the question is whether Mexican investors will get jittery and hoard their money or bolt.

The PRI has been counting on the economic recovery to help recoup the political losses it has suffered since the December, 1994, peso collapse triggered

The PRI counted on economic recovery to quiet anger, but voters aren't soothed

a deep recession. The PAN already governs four states and the six largest cities outside the capital. Now, the Morelos results show that, with crime out of control and salaries yet to recover, Mexican voters aren't satisfied with rosy economic forecasts. Early returns showed that the PAN won the city hall in Cuernavaca, the state capital while the PRD captured three cities and the legislature. The vote was a repudiation of the state's PRI governor, Jorg Carrillo Olea, whose three years in office have been marked by violence, including an epidemic of kidnappings. Although Mexicans are less concerned about drugs per se than about the spread of all kinds of crime, Carrillo Olea's reputation took a further blow with a report in *The New York Times* alleging that he had protected drug traffickers, a charge he denies.

HOPELESS? The latest PRI setback was the Mar. 17 arrest of an army general on charges he offered \$1 million a month in bribes on behalf of Mexico's most lethal drug cartel. This followed last month's arrest of the country's former antidrug czar for alleged drug ties. "Every piece of news reconfirms the opinion of a growing number of the electorate that the system is relatively hopeless and it's time to sweep the

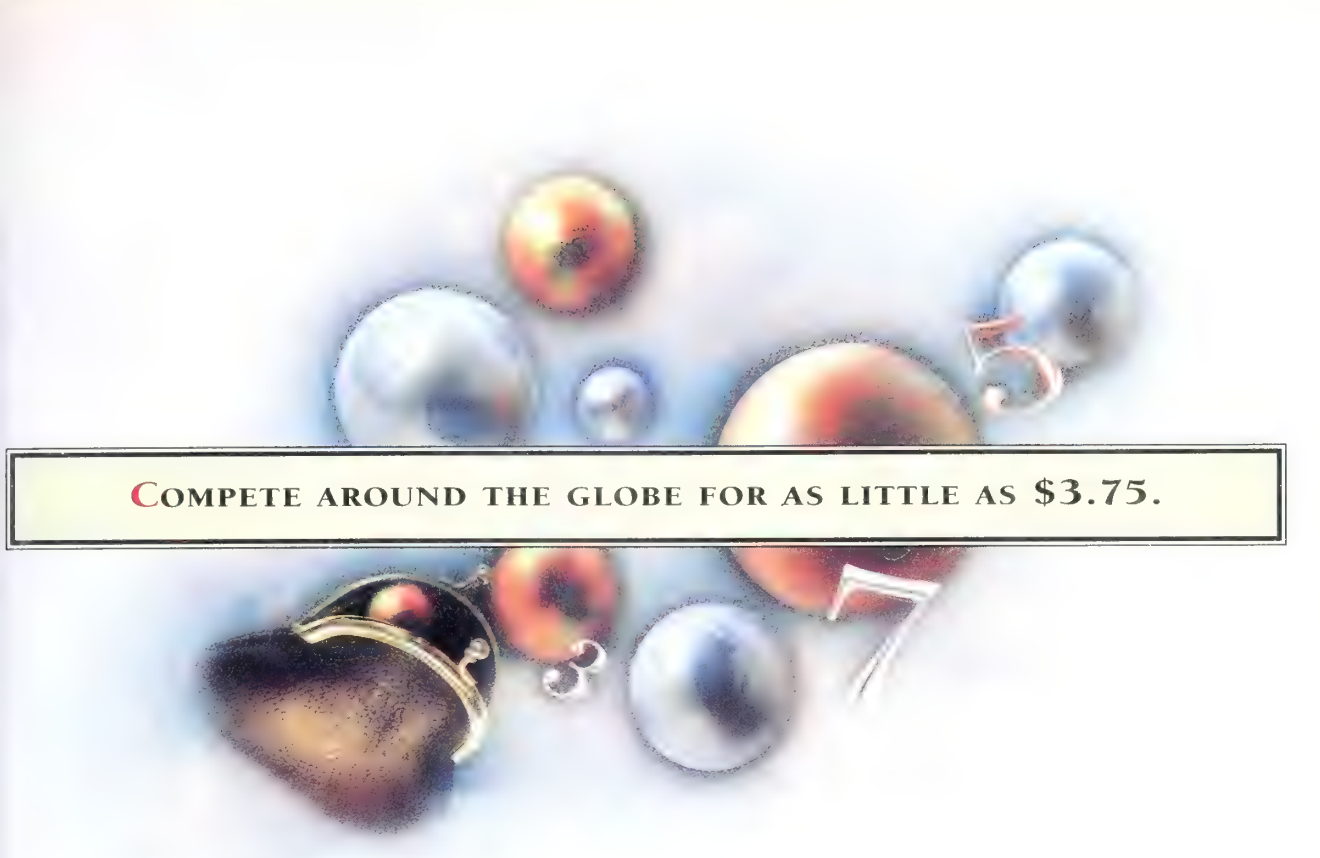
PRI out," says political scientist Federico Estévez.

So far, opposition parties have downplayed drugs in campaigns against the PRI. They see the scandals as just a facet of the wider corruption engendered by one-party rule. "It's the most recent chapter in a long history," says Carlos Castillo Peraza, PAN candidate for Mexico City

mayor. A nationalist backlash against the debate in Washington over U.S. "certification" of Mexico's drug policies may have helped the PRD, the most nationalist of the three parties, says Vicente Licón, director of the Mexico City polling firm Indemerc Louis Harris.

So far, the drug scandals appear to have left the recovery unscathed. But as opposition parties gain strength, Washington will need to reassess how it does business with Mexico. The PRI is "the old-guard elite that has lost control and doesn't realize what kind of trouble it's in," says one U.S. Senate staffer. That causes jitters about what could follow. "When you lose the PRI," he adds, "you don't know what will happen." These days, even with the PRI still in power, there's no way of knowing.

By Elisabeth Malkin in Mexico City



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EDITED BY JOHN TEMPLEMAN

THE ETHNIC TINDERBOX INSIDE CHINA

The Dalai Lama's Mar. 22-27 visit to Taiwan is causing a big brouhaha in Beijing. Chinese officials, edgy after a string of fatal bombings in Xinjiang and Beijing, say the p "undermines the unity of the Motherland" and claim at the spiritual leader of Tibetan Buddhism is fomenting separatism. But the Dalai Lama, who preaches nonviolent opposition to China's repression, may be the least of Beijing's paratist worries.

China's whole periphery, from Xinjiang to Tibet and Yunnan, is now a necklace of ethnic discontent. Xinjiang's Uigur Muslims delivered their separatist message with bombs after Deng Xiaoping's death. Now, they are calling for independence. "Xinjiang has the potential of becoming China's Northern Ireland," warns Barry Sautman, social science professor at the Hong Kong University of Science and Technology.

Beijing would need to overreact badly to reach such a pass. But the initial omens are not promising. Nerves in Beijing are on a hair trigger as Deng's successor, President Jiang Zemin, seeks to strengthen his grip on power. Reports from Uigur exiles claim that mass arrests and summary executions of Muslim demonstrators by Chinese security forces provoked the bombings.

NOT SPONTANEOUS. If Beijing believes some of the scary scenarios now making the rounds, the latest bloody incidents could look like an innocuous prelude. One Chinese dissident, who spent more than a decade in Xinjiang, says the current violence is a deliberate strategy, decided by many disaffected groups long ago, to test Beijing's resolve and power once Deng died. "Beginning now, from year to year the crises will increase," he says.

Beijing seems stunned by the possibility that ethnic unrest might be infectious. But officials are stumped about how to inoculate the system against it. Policy swings wildly from

turning the screws of repression even harder to killing with kindness through occasional conciliatory gestures such as promising to improve living standards for minorities.

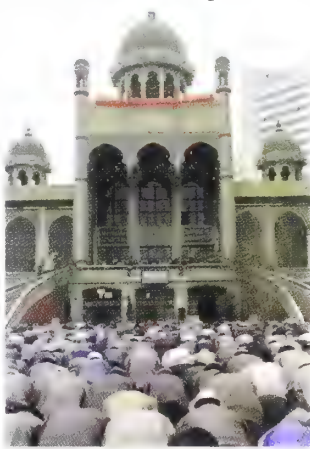
The authorities' worries may be justified. Ethnic disturbances could jump from Xinjiang to Tibet and other areas. Hui Muslims, for instance, are chafing under the majority rule of China's dominant Han people. Late last year, they blocked streets in the Shaanxi city of Xian for days after a Hui died in police custody. The Hui also present a more insidious threat to central control. "The drug trade, which is growing all over China, is in their hands," says James Seymour, a China specialist at Columbia University.

RIOTS PREDICTED. Calls for stability at the recent National People's Congress meeting in Beijing are telltale signs. They are code for worries that the Communist Party's rule may itself be vulnerable. Chinese labor activist Han Dongfang, now exiled in Hong Kong, points to millions of losers from Deng's economic reforms. In such situations, argues Han, Chinese people traditionally see three options: submission, suicide, or rebellion. While dispossessed workers may still be at stage one, warns Han: "the shift to option three happens suddenly, without warning."

Even optimists can foresee worker riots. William Overholt, managing director for Asia research at Bankers Trust Asia Ltd. in Hong Kong, predicts them along with continued challenges to authority by minorities. But he says that's a far cry from toppling the party and defeating the 3 million strong People's Liberation Army.

Jiang, however, is taking no chances. It wasn't a joke when he donned a Uigur Muslim skullcap at a recent party event in Beijing. The Dalai Lama in Taiwan and separatist bombs at home have captured his and the party's attention.

By Dave Lindorff in Hong Kong



XINJIANG: Testing Beijing?

GLOBAL WRAPUP

A U.S.-JAPAN WARMING TREND

► Both Americans and Japanese are happier about U.S.-Japan bilateral ties than they have been for years. A Yomiuri Shimbun-Gallup Organization poll of more than 3,000 people in both countries in January found that 46% rated mutual relations as "good" or "very good."

That's the best level since President Ronald Reagan's days and a dramatic improvement from the record low of less than 30% in 1995. The main reasons: reduced bilateral trade tension

and less Japanese anxiety over the military alliance. Strains peaked after three U.S. servicemen raped an Okinawan schoolgirl in 1995. They eased with last year's agreement to return the U.S. air base at Futenma in Okinawa to Japan.

ALCATEL-THOMSON?

► French communications giant Alcatel Alsthom's chances of taking over defense contractor Thomson-CSF are looking distinctly rosier now that the company has returned to profits. Although the French government

rebuffed Alcatel's initial approach, CEO Serge Tchuruk says he still wants Alcatel to become Thomson-CSF's majority shareholder in an alliance with planemaker Dassault Aviation.

The government favored selling Thomson-CSF to defense concern Matra Hachette until Matra dangled Thomson's consumer electronics activities to Korea's Daewoo. Tchuruk argues his scheme would produce a stronger result, melding Dassault's defense and Alcatel's civilian technologies. Having put Alcatel back on a growth path, his logic may be more compelling.

Six years into the economic expansion of the 1990s, and the living is easy. Almost 3 million jobs have been added over the past year alone, and consumer confidence is soaring. Company coffers are brimming with profits, the stock market is in the stratosphere, and inflation is actually falling.

Perhaps best of all, to many it seems the good times can go on for years. That old bugaboo of capitalism—the business cycle—has been tamed, according to today's conventional view. Rather than experiencing the booms and busts of old, the economy is on a steady growth path. Companies are avoiding past excesses, using computers and improved communications to manage inventories better and to boost workers' productivity. "Information technology has doubtless enhanced the stability of business operations," said Federal Reserve Chairman Alan Greenspan in his Feb. 26 testimony before Congress. His biggest worry? An overheated stock market.

But it is not the stock market or inventories or even inflation that will determine how long this expansion will last. Nor will auto sales, housing starts, or any of the traditional cyclical indicators give the first warnings of an impending recession, as they did in 1979 and 1989.

Instead, there is a new business cycle, tied to the health of the high-tech sector. Riding a wave of technological optimism, the computer, software, and communications industries have grown at a pace far exceeding the rest of the economy over the past three years, helping to extend the expansion.

But this exuberance has a price: With high tech having grown so big, the economy is now vulnerable to a high-tech slowdown in a way that was never true before. And there are already troubling signs of weakness in those industries that, if prolonged, could foreshadow a wider slump—as well as a steep decline in the stock market.

The distinctive character of the new business cycle raises the odds of policy mistakes. Like generals fighting the last war, the Fed seems to be focusing on traditional cyclical indicators, such as retail sales, new-home starts, and industrial production, that have all been upbeat recently. These are "still what drives the business cycle," says Fed Governor Laurence H. Meyer. Meanwhile, semiconductor shipments and other measures of high-tech growth hardly are mentioned by Greenspan and other policymakers, despite their economic importance. "The

Fed needs to look not just at inflationary measures but also at what part of the technology cycle we are in," says G. Da Hutcheson, president of VLSI Research Inc., a Silicon Valley research firm.

Certainly there is little doubt that high technology has replaced the traditional cyclical industries as the main driving force for growth. In the past three years, the high-tech sector has contributed 27% of the growth in gross domestic product, compared with 14% for residential housing and only 4% for the auto sector. Over the past year, a stunning 33% of GDP growth has come from information-technology industries, propelled by everything from the Internet boom to the rise of direct-broadcast satellite television (chart, page 60).

The unique nature of an expansion led by high technology explains why the U.S. has been able to sustain a lower unemployment rate with faster growth and less inflation than

economists ever believed possible. Despite strong demand and rising wages for programmers, network technicians, and other high-tech workers, inflationary pressures are counteracted by constantly falling prices for such products as computers and communications equipment. Meanwhile, with the rest of the economy growing at a meager 1.8% annual rate, the demand for workers outside of high tech has not been strong enough to drive up wages. A BUSINESS WEEK analysis shows that real wages for nonsupervisory workers outside high tech have risen by just 0.3% in the past year, hardly enough to trigger inflation.

But the business cycle has not disappeared. To the contrary: High technology is more volatile than the automobile industry, with the biggest swings driven

by new technologies (chart, page 64). When the new-product pipeline temporarily slows, as it did in 1985 and 1989, demand can fall sharply. But a hot new technology, such as the Internet, can send sales skyrocketing just as suddenly. "Every time we thought something about our business was less cyclical," says Andrew S. Grove, chief executive at Intel Corp., "the next cycle was bigger than the earlier one."

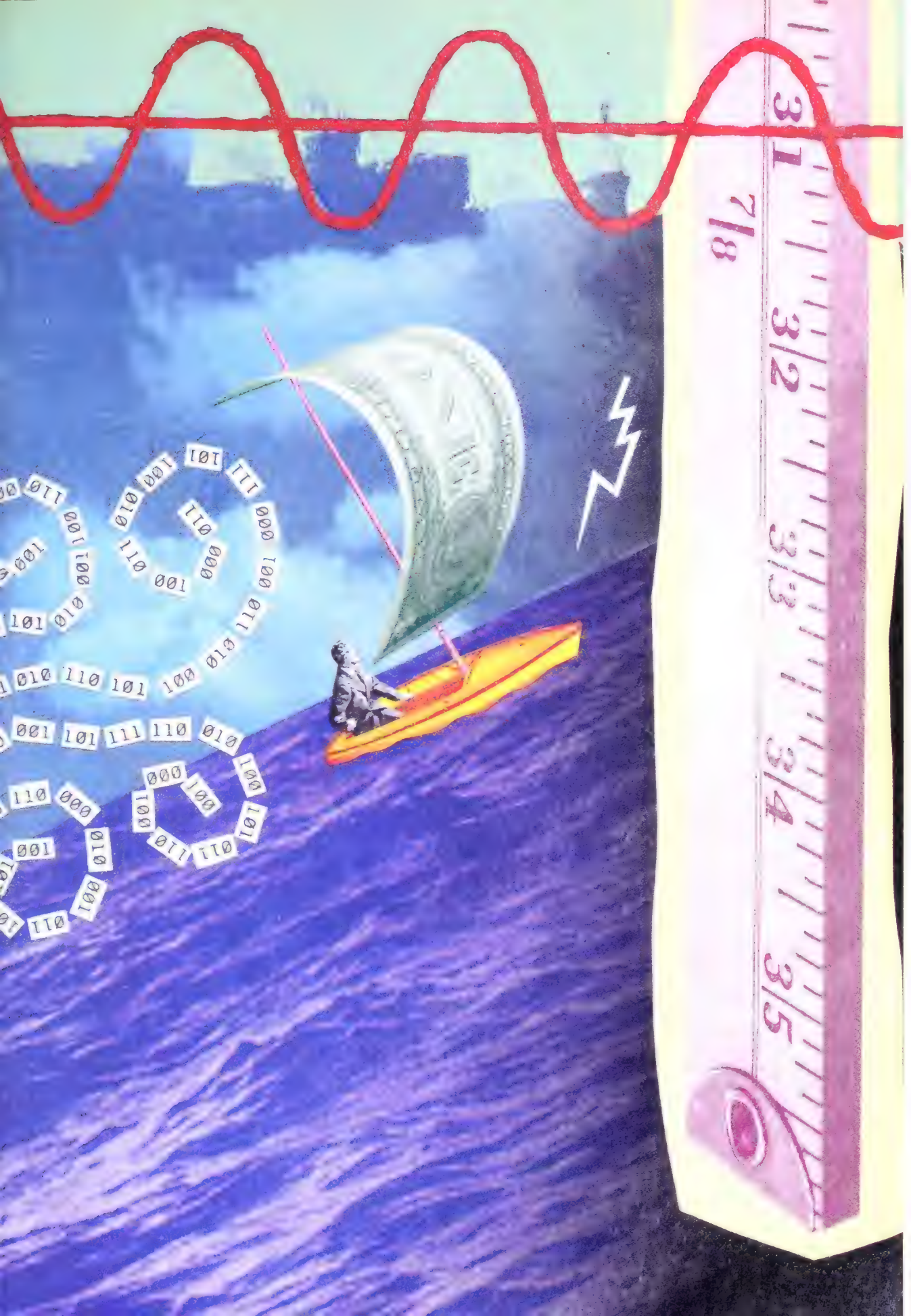
There's another factor that could compound the impact of the tech cycle: High tech has grown so large and important that there's a feedback loop to the rest of the economy. When times are good, fast-growing high-tech companies throw off

Cover Story

THE NEW BUSINESS CYCLE

It used to be housing and autos.
But now, high tech rules. And a stall
there could stagger the economy

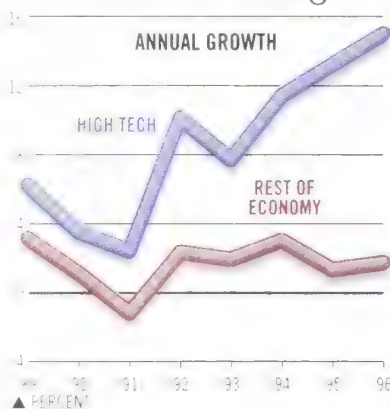
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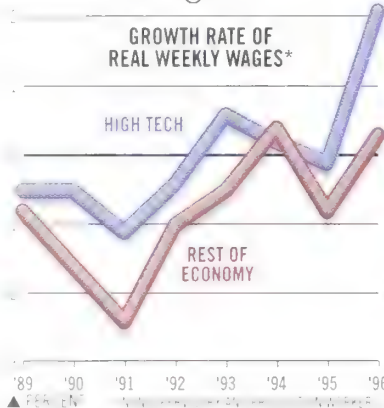
money that fuels general prosperity, which in turn sustains the demand for high-tech products. An expanding high-tech sector spends big dollars on everything from advertising to new buildings to cleaning services. High-tech profits boost stock prices, making investors more willing to spend. And rising wages and bonuses for high-tech workers finance the purchases of new cars and homes. Indeed, high-tech jobs and industries have accounted for roughly 20% to 25% of the real wage and salary growth over the past year, according to new BUSINESS WEEK calculations, making them the key support for consumer spending.

But if and when things turn sour, look out. Information technology—now the single largest line in many corporate capital budgets—will make a tempting target for cost-cutting if the product cycle slows, or if the rest of the economy should slip because of, say, a Fed rate hike. Inventories are lean, and with 3.5 million jobs eliminated since 1989, Corporate America has squeezed most of the fat out of its workforce. Next time the economy slows, the only way tight-pressed companies can save money will be to delay nonessential info-tech projects. "Our industry used to be immune from the business cycle," says Eric A. Benhamou, CEO and chairman of 3Com Corp. "We're no longer flying under the

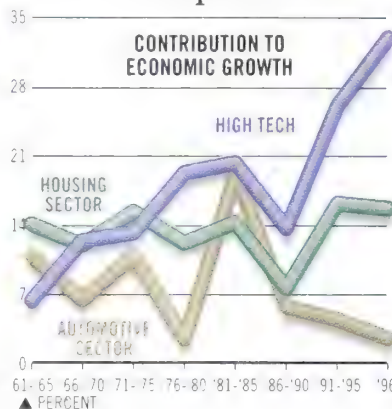
The High-Tech Sector Is Accelerating...



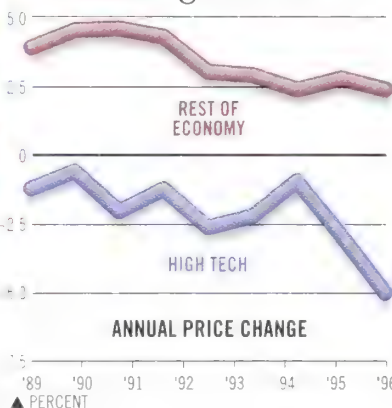
...Bolstering Wages...



...Dominating The Expansion...



...Without Creating Inflation



DATA: BUREAU OF ECONOMIC ANALYSIS; BUREAU OF LABOR STATISTICS; BUSINESS WEEK

Cover Story

radar. There's just too much money being spent."

The downside of the new business cycle could have dramatic consequences for employment, investment, and growth. In Silicon Valley, in Boston, and in other high-tech hotbeds across the country, a multitude of software companies are staffing up in expectation of 20% annual growth, hiring hordes of programmers, testers, and technical writers who would not be needed if high-tech sales slowed. "It's a speculative bubble," says Larry Kimbell, director of the UCLA/Anderson Business Forecasting Project, "and there will be a lot of very disappointed people" when the boom slows.

If profits drop sharply enough, most high-tech companies

would have to curtail new-product development and the construction of factories. Venture-capital funds, now going begging, would dry up. As the breakneck pace of technological change slowed, buyers would have less reason to upgrade immediately to the next generation of computers or software, dampening demand even more. "If our rate of innovation slowed, and the buying momentum consequently lessened, presumably that could have repercussions on the whole economy," says Grove.

A slowdown in high tech could hold dire consequences for the stock market. From 1993 to the end of 1996, high-tech stocks have been the market leaders, pulling other sectors along with them. Over that three-year stretch, high-tech stocks have produced blistering annual returns of 35%, compared with 20% for the S&P 500. The surge in tech stocks has given many of them sky-high price-earnings multiples on the expectation of soaring future growth. An unexpected slowdown in high-tech demand could send those stocks tumbling, knocking the rest of the market from its record levels.

FALL-OFF. There are some signs that such a high-tech slowdown may already have started. For one thing, tech stocks, as measured by the Morgan Stanley High Tech Index, are down 15% since mid-January. For another, demand for high-tech equipment is weakening. Chip sales dropped by 3% from December to January and are down 14% from a year earlier, according to a Mar. 13 report from the Semiconductor Industry Assn. Government figures show consumer spending on computers rising at its slowest rate since 1992, while unfilled orders for information-technology equipment are shrinking for the first time since 1994. "We knew retail was slow, but now the corporate side—where most of the money is made—is showing signs of weakness as well," says Robinson-Humphrey Co. analyst Robert Anastasi, who follows computer sales. Adds Richard C. O'Brien, economist for Hewlett-Packard Co.: "We think we're in the late stages of a business cycle, and we're exhibiting the lower growth rates you'd expect," because of lower capital spending.

Over the past year, fully one-third of GDP growth has come



Of course, this high-tech slowdown may turn out to be a dip in a remarkable upward trajectory. Cheaper computers from Compaq Computer Corp., Packard Bell NEC Inc., and others could stimulate demand at the low end of the market. The Internet may continue to open up a range of new applications. And even an extended high-tech pause may be cushioned if global demand rebounds.

But even if high tech is the future of the economy over the long run, that does not preclude a bumpy ride along the way. In many ways, this period resembles the second half of the 19th century, also a time of massive investment in a new technology: the railroads. From 1869 to 1893, the miles of rail track quadrupled, and rail shipping costs dropped dramatically, opening up large parts of the country for manufacturing and commercial agriculture. The railroads themselves consumed much of the U.S. steel and coal production and accounted for almost 20% of all investment. Overall, the railroads' expansion fueled an economy that grew an average of 5% annually.

GROWING FORCE. But the long-term growth in this period conceals two sharp downturns, both linked to the railroads. The panic of 1873 was caused largely by railroad overexpansion, leading to a slew of railroad bankruptcies and an abrupt decline in new investment. And the mini-depression that started in 1893 was greatly aggravated when overbuilt railroads

sharply curtailed the construction of new tracks.

Like the railroads in the late 19th century, high tech is the leading sector of the economy. The Information Revolution started in the mid-1970s, when the price of computing power began to plummet. But until recently, high tech simply was not big enough to influence the whole economy. From 1983 to 1993, high-tech spending in dollar terms grew no faster than the rest of the economy.

But over the past three years, the high-tech sector has skyrocketed while the rest of the economy has slowed down. High tech, as measured by *BUSINESS WEEK*, totaled some \$420 billion in 1996 (page 68). Consumers and businesses now spend \$282 billion in the U.S. on information technology hardware alone, making it larger than any of the traditionally cyclical sectors such as autos and construction. That's 17% more than U.S. purchases of new motor vehicles and parts, 49% more than spending on new homes, and 168% more than commercial and industrial construction.

The clout of the high-tech sector shows up clearly in the labor market. Help-wanted ads plead for project managers, systems analysts, and help-desk technicians. Meanwhile, companies' continuing need for assistance

with their computer systems has created a bull market for the management consulting industry, which is adding jobs at a rate of more than 40,000 per year. "We're experiencing 40% growth in the information-based consulting area," says Roger Siboni, deputy chairman and chief operating officer of KPMG Peat Marwick.

All told, there are more than 9 million workers now in the high-tech sector. Each new job creates additional jobs across the economy, generating a "multiplier" effect. Historically, manufacturing was thought to have the biggest multiplier effect in the economy, which is why it played such a big role in business cycles. The expansion of an auto plant, say, would ripple through the economy, boosting hiring at steel mills and other suppliers. Since factory workers were well paid, jobs would be created at nearby stores and even construction companies to supply and house the new workers.

There's growing evidence, however, that high tech may now have a larger multiplier effect in the U.S. than traditional manufacturing industries such as autos. As U.S. manufacturers have become more efficient, an expansion in output no longer requires massive hiring at factories. And with suppliers increasingly spread out in Mexico, the Far East, and Europe, the impact of an increase in auto sales, say, is diffused globally.

By contrast, creating a new chip design or a new soft-

Information technology, propelled by the Internet

{The honest-to-goodness to

Announcing the

By David Hill, C

Of all the speculation about the new Corvette over the years, the biggest misconception was that it would be a sort of warmed-over C4.

This was because of the way we masked all of our prototypes to make them look like C4s. We certainly didn't try to dispel this notion.



{ The engine is entirely new—aluminum, deep-skirt, 5.7L, 345 hp at 5600 rpm, 350 ft.-lbs. of torque at 4400 rpm }

In fact, we were so tight-lipped about the C5 all along that I think people just assumed we had nothing to say about the car.

When the reporters finally drove it, they were probably a little awestruck that the Corvette had been reinvented. And, in fact, there are only a few holdover parts on the car; everything else is new. But that was the intention all along, to make the new Corvette a big surprise, a revolution.

To Change A Classic The big dilemma right from the outset was how much change to incorporate into this new car. The goal was to maintain the spirit and soul of past Corvettes. We examined the weak points and turned them into strengths. I like to say the things that were good, we made great, and things that were great are even better.

In fact, there was even some concern about making the car too civilized, and maybe people would lose their fascination with the Corvette. When this was researched, we were all surprised to find that far more important than how this car looked — three times more important — was how good it was, how dependable and reliable. This became our top priority.

Ride, Handling, Structure The performance numbers are impressive [175 miles-per-hour, 0-60 in 4.7 seconds (manual), 345 horsepower; speculation about all these numbers has been true], but it's the ride and handling that really make the C5 a different car.

The handling is easy, natural, free of surprises; you wouldn't have any hesitation about sending a friend out to drive this Corvette. Even the most



{ The new center tunnel structure and hydroformed } complete novice will feel the difference in the quality. You can go 500 miles or more in comfort sitting and still be in really good, alert shape with a clear head and clear hearing, because the ride has been quiet and easy.

We had some people drive the car from down to Florida and Arizona. They talked about how good they felt because the car is very



T h e N e x t

the C5 Corvette, after all.}

th of Speculation.

te Engineer



he new Corvette 450 percent stiffer than the C4. }
an anything else, the improved ride
ult of increased rigidity. Structurally,
450 percent stiffer than its predecessor,
ows. This stiffer structure allows the
(short-arm, long-arm) suspension to
properly.

er car has achieved the feeling of a very
e touring sedan, even though it's a high-

performance sports car, and even though the roof is removed. In fact, the C5 has the stiffest frame of any open-roof production sports car. It's solid; it communicates an unprecedented level of goodness because of its breakthrough, best-of-class kind of structural integrity.

Entry, Egress, Leg Room Now the interior space is expanded due to the extended wheelbase and the new rear-mounted transmission and fuel system layout. There's more leg room, and we made entry and egress easier.

No matter how much someone says that a sports car should be challenging, we found that while people will put up with minor inconveniences, they'd much rather not be hassled by a car. Even sports car drivers want leg room, and they like to get in and out of their car easily. Almost every-

one we asked felt the same way, from average-size people to professional football players who attended a seminar we held in Chicago.



{ The C5 transmission is located in the rear for better weight distribution and increased interior space. }

The Next Corvette While the C5 is in some senses a traditional small-block V8 Corvette, it really is a different car than the Vette you've known. It's different in ways I think people will appreciate.

It's been a long, challenging project, and it's been hard to keep quiet about this whole thing all this time. Now the new Corvette is real. And now all those years of speculation end right here: with our new car, right on the showroom floor.

As for the speculators and spy photographers, I guess their work is done.

Then again, there's always '98.



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ware program is a labor-intensive effort that relies almost exclusively on well-paid domestic workers. A study of Microsoft Corp.'s impact on the Washington state economy showed that each Microsoft job created 6.7 new jobs in the state, compared with a 3.8 multiplier for Boeing Co. The difference? Almost \$800 million in stock option income for Microsoft workers in 1995, the year of the study. These dollars

spill over in the form of increased purchases of such things as cars and homes. In addition, Boeing outsources a lot of the work on each plane. As a result, "Microsoft spends three to four times more per person in the local economy than Boeing does," says Richard S. Conway Jr., the Seattle-based economist who conducted the study.

High-tech jobs tend to pay well—and salaries are rising—

even the jobs that aren't so glamorous. Bureau of Labor Statistics data show that

weekly wages for production workers in the communications-equipment industry rose by almost 7% in the past year, while earnings for nonsupervisory workers in the software and computer services industry rose by almost 5%. Intel distributed \$620 million in profit-sharing and bonus money to its more than 40,000 employees for 1996.

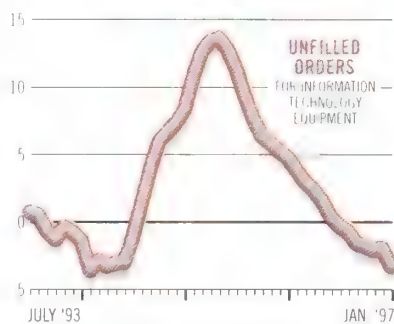
Despite strong growth, an expansion driven by high tech is less likely to spur price inflation. In a traditional business cycle, prices would rise and productivity growth would slow as factories hit their capacity limits. But high-tech industries, such as semiconductors and software, are different. Creating a program or a microprocessor requires a big investment. But then the cost of actually producing the chips or software for sale is relatively low. The result is a virtuous circle: Rising demand drives average costs down, making it possible to charge lower prices and boosting demand even further.

OPTIMISM. How long can this high-tech expansion continue? Technology companies are banking on a continuing stream of new and improved products to fuel growth well into the future. "With lower costs and more advanced technology, you can do applications that weren't economically possible before," says Benjamin Anixter, vice-president for external affairs at Advanced Micro Devices Inc. At the bottom, falling prices may pull in new demand. The latest low-priced computer from Compaq, for example, "is selling extremely well to customers we didn't sell to before," says Robert A. Gunst, CEO of retailers Good Guys Inc., based in Brisbane, Calif.

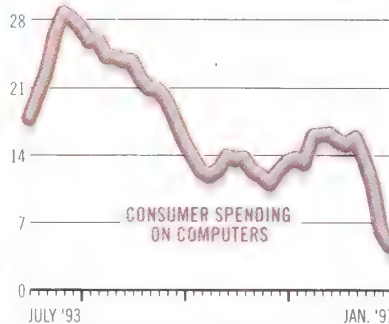
Most growth forecasts are upbeat.

Trouble May Be Brewing

HIGH-TECH BACKLOGS ARE SHRINKING...



...AND DEMAND FOR HOME PCs IS TURNING SLUGGISH



decades came in 1985, when demand petered out just before the introduction of Intel's 80386 microprocessor. And in the first half of 1990, another product transition helped drive down business spending on computers even before the start of the recession of 1990-91.

Now, the industry may be facing another pause. With orders falling off, there is no obvious "must-have" product on the horizon to stimulate demand, as the Internet did. Intel's much-ballyhooed Pentium MMX chip is turning out to offer only a minimal improvement in speed for existing software. "It hasn't set the corporate world on fire," says Anixter. "Usually, new products create a lot of excitement, but that hasn't happened yet." High-definition TV, which will eventually create enormous sales, will not hit the airwaves until 1999, while the low-orbit satellite systems that promise a wealth of new applications are nowhere near ready.

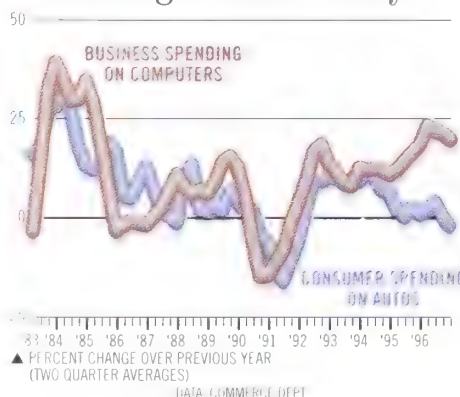
DANGER. The dominant role of high-tech spending gives a bigger meaning to any drop-off in demand. An economy is vulnerable to a downturn when it develops "imbalances," to use Greenspan's term—that is, when one sector or industry expands too fast. For example, consumer spending and office construction far outpaced the rest of the economy during the 1980s. So when the recession came in 1990, these sectors crashed, making the downturn much worse.

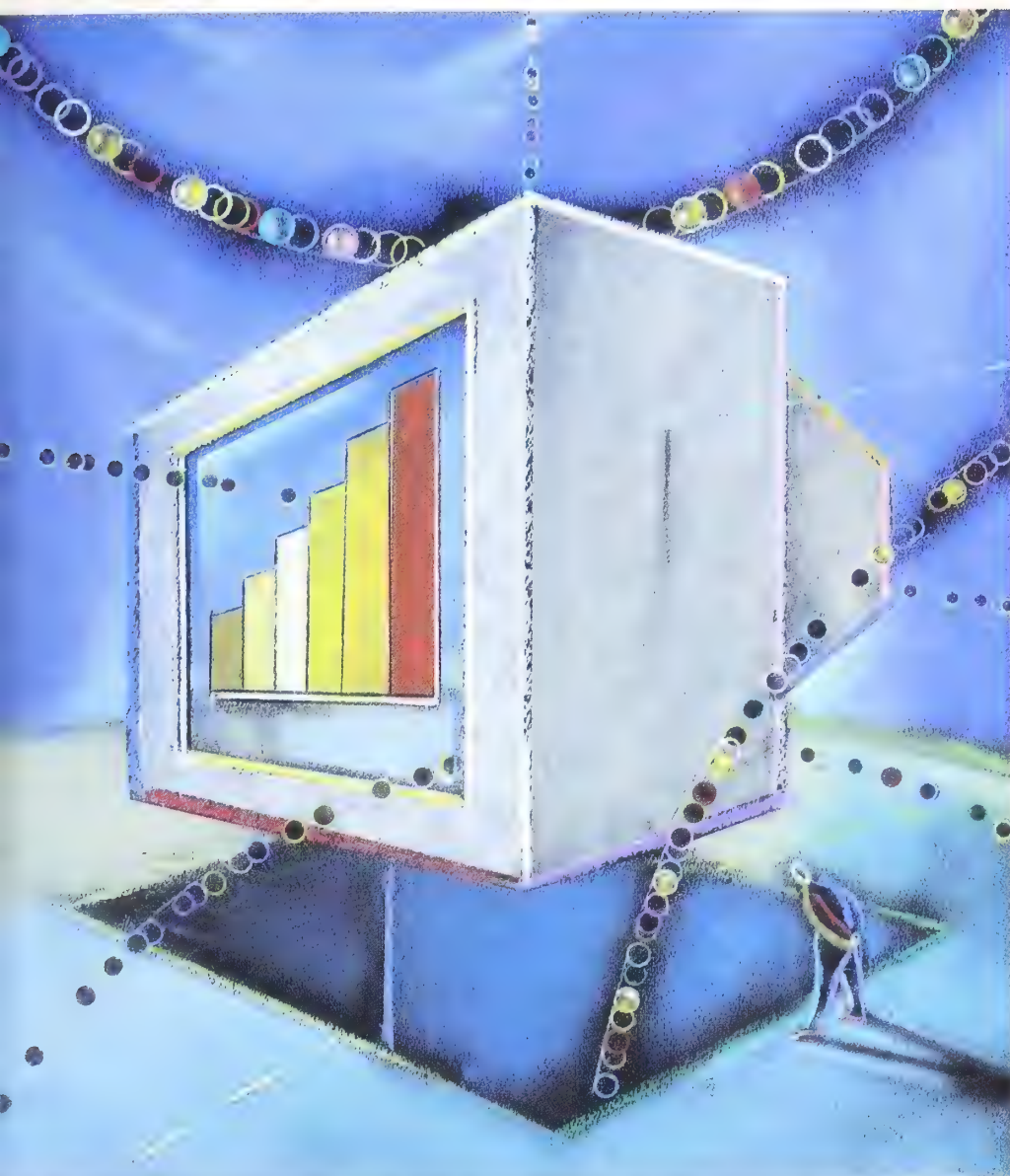
Now, high tech faces the same danger. Over the past three years, business spending on information-technology gear has risen by almost 45%. Meanwhile, spending on labor has risen

by only 19%. Even if information technology has become a strategic asset for many businesses, its very size makes it a logical place to cut or postpone when times get tough. "After all," says Paul Saffo of the Institute for the Future, "you can only defy gravity if you're small."

Much of the planned increases in information spending can be deferred if the economy softens. Consider KPM Peat Marwick. It is planning to spend \$250 million over the next three years on information technology, more than double its historic spending pattern. Out of that, there's little flexibility in the \$150 million, but the remaining \$100 million is more variable, says Sibon. "Building Web-centric information systems might become less critical."

Spending On Computers Swings Dramatically





consumer markets and hype," says William C. Rosser, a Gartner Group analyst. "That means you're more likely to see cycles like other consumer industries."

If and when the cutbacks come, they will not be confined to computers and software. Instead, the downturn is likely to spread to the telephone and networking industries as well. When the phone system was used mainly for voice calls, demand for lines was driven by population growth. But more and more, investment by phone companies is driven by the need for additional phone lines for computers and more capacity for data connections rather than basic voice service. The sudden prominence of the Internet, for example, forced Ameritech Corp., the Chicago-based telephone company, to boost its capital spending by \$100 million to \$200 million in 1996, to keep up with the need for more lines. **"PAYBACK."** To be sure, there are forces that could prevent a high-tech downturn from happening anytime soon. Intel and Microsoft, the giants of personal com-

The changing nature of corporate info-tech spending at companies will make it easier to make quick cuts. Rather than hiring a large internal staff of programmers, companies are relying on temporary workers and outside consulting firms, which can be easily sloughed off during tough times. At temporary-worker giant Manpower Inc., the division that supplies technology workers is growing at 40% per year.

Small businesses will not be reluctant to hold off spending the economy turns down. "I have a lot of control over what I buy," says Josh Moritz, CEO of DMTG Inc., a small New York-based advertising firm. "I can delay purchases or buy used machines."

Consumers have even more reason to cut back during recessions. Over the past three years, the amount of money spent on home computers has risen by 55%, far in excess of come growth. Most consumers do not need a new computer; Instead, like autos, they buy the newest model if they can afford it. "A dominant force in the PC world is becoming

puting, are investing hundreds of millions to create new products and to help other companies do so. "If the cycle is pointing down or is softer, then the only thing we can do to cope with that is to pump up our products," says Grove.

High-tech executives are also counting on competitive pressure forcing corporations to continue spending on information technology even in a recession. "The payback customers get from our products is very clear, very justifiable," says Mark Eppley, chairman of Traveling Software Inc., a Bothell (Wash.) maker of software for remote access. "Our business is growing very fast—independently of the economy."

A decline in U.S. sales could be cushioned by growth in overseas sales. Telecom deregulation in Europe may open the floodgates for cutting-edge computers and communications gear, where U.S. companies excel. Developing countries represent a huge untapped market that will become increasingly important. "There's a growing middle class in India, and it's as large as all of France," says Donald Macleod, chief fi-

With business spending so much on technology, it's a logical place to cut or postpone if times get tough



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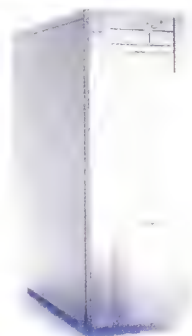
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financial officer at National Semiconductor Corp. "That's where the long-term opportunity lies."

But relying on global demand is no panacea. North America still makes up almost half the global market for computers, software, and peripherals. The latest data show chip sales falling faster in Asia than in the U.S. And growth in Japan and South Korea is expected to slow in 1997, according to DRI/McGraw-Hill forecasts, with Europe's economies still sluggish. In areas such as Japan, Germany, and France, "our business is still in most

people's terms reasonably good," says John T. Chambers, CEO of Cisco Systems Inc. "But it's not good in Cisco terms."

Closer to home, the growing importance of high-tech poses new problems for economic policymakers such as the Fed. The tools of monetary policy—interest rates—do not work very well on high tech. In particular, it matters more whether compelling new products and technologies are available. When high-tech industries are riding a technology wave, they can power their way through slowdowns in the macroeconomy, no

matter what the Fed does. "Whether the interest rate is 7% or 9% doesn't matter when you're growing at 30% per year," says AMD's Anixter.

So far in this expansion, the country has been lucky. The surge in high tech in 1995 and 1996 came just when autos and housing turned sluggish. But now the rest of the economy is turning up, judging from recent data. As a result, forecasts are raising their projections of growth in the first quarter by 3% or more, leading to speculation that the Fed will soon boost interest rates.

But ignoring the health of the information technology industries can produce bad policy. With order growth for computers and semiconductors having slowed noticeably, the economy may be far weaker than the traditional indicators make it seem. This raises the possibility that a rate hike by the Fed could be a serious mistake at this point.

Is a high-tech-led recession inevitable? Hardly. But for the first time, it's possible, and the odds are rising. The new business cycle is alive and well in Silicon Valley.

With Andy Reinhardt in San Francisco and bureau reporter

Cover Story

JUST HOW BIG IS HIGH TECH?

How big is the high-tech sector, and how fast is it growing? The government's economic statistics, it seems, are still stuck back in the days when smokestack industries ruled supreme. But an analysis by BUSINESS WEEK shows the importance of high tech to the economy.

Take the job market first. According to BUSINESS WEEK's calculations, there are 9.1 million workers in the high-tech sector (table). In part, this total is based on the government's published numbers, which provide data on employment in such industries as software and semiconductors.

But the jobs within the high-tech industries are not the whole story. These days, most companies, from airlines to steelmakers, employ large numbers of programmers, network technicians, and other high-tech personnel. To count these workers, BUSINESS WEEK analyzed unpublished data from the Current Population Survey, the government's main source for employment figures. Adding these workers boosts the total by some 60%.

DOWNSIDE. The same calculation shows that the number of high-tech jobs rose by 4.9% in 1996, vs. a 2% increase in the rest of the economy. Wages also grew faster in high tech, according to our analysis of published and unpublished government data. The combination of more jobs and rising pay leads to the conclusion that high-tech jobs contributed roughly 20% to 25% of the growth in real wages and incomes in 1996.

On the output side, high tech's con-

tribution to GDP totaled \$420 billion in 1996, up 15% from 1995 (table). These figures are based on BUSINESS WEEK's new inflation-adjusted data series for high tech using the Commerce Dept.'s chain-weighting procedure. (Increases in computing power are

number of dollars flowing through high-tech companies, measuring the resources they have to hire workers and to purchase goods. Nominal growth exhibited wide swings in the 1980s and early 1990s, including 1989 through 1991, when high-tech spend-

A Better Measure of the Sector

JOBS

1996 EMPLOYMENT (MILLIONS)

CORE INDUSTRIES

Computers, software, and communications

3.8

ASSOCIATED INDUSTRIES

High-tech sales, repairs, and a portion of management consulting and temporary agencies

1.8

REST OF THE ECONOMY

Programmers, network technicians, and other high-tech workers

3.5

TOTAL HIGH-TECH JOBS

9.1

OUTPUT

MAJOR HIGH-TECH COMPONENTS OF GDP

HIGH-TECH SECTOR BILLIONS OF 1996 DOLLARS*

Business and consumer spending on computers, peripherals, and communications equipment; net exports of information technology; consumer spending on telephone service and cable television; investment in telecom structures	1988	\$215.7
	1989	229.2
	1990	237.2
	1991	243.2
	1992	268.0
	1993	289.1
	1994	322.3
	1995	365.0
	1996	420.3

DATA: BUREAU OF LABOR STATISTICS; BUREAU OF ECONOMIC ANALYSIS; BUSINESS WEEK

*CHAIN-WEIGHTED

captured by the inflation adjustment.)

But there's a downside to high tech's new preeminence. Anyone who is familiar with Silicon Valley knows that computers and related industries are given to booms and busts. To reveal this volatility, we constructed a data series showing high-tech spending without any adjustment for inflation or for increases in computer power. This "nominal" series is the

ing lagged behind other sectors.

This analysis demonstrates just how different the past few years are from what went before. From 1983 to 1993, nominal high-tech spending rose no faster than overall GDP. Only since 1993 has high tech accelerated far ahead of the rest of the economy, making it large enough to be the prime mover of the business cycle.

By Michael J. Mandel in New York

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Michael E. Price, President
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^{††}The Morningstar rating is based upon performance when the fund had no sales charges or Rule 12b-1 fees. Class I and Class II shares, which were initially offered on November 1, 1996, have not been rated.

for Class I and II shares which are included only from the date of their implementation on November 1, 1996. Such fees will affect subsequent performance. Investment return and principal value will fluctuate with market conditions, and you may have a gain or loss when you sell your shares. Past performance does not guarantee future results.

^{†††}Source for S&P 500: Standard & Poor's Corporation. The index is unmanaged and includes reinvested dividends. One cannot invest directly in an index.

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AVERAGE ANNUAL TOTAL RETURNS ^{†††}			
SINCE INCEPTION	3-YEAR	1-YEAR	
21.2%	16.7%	19.2%	

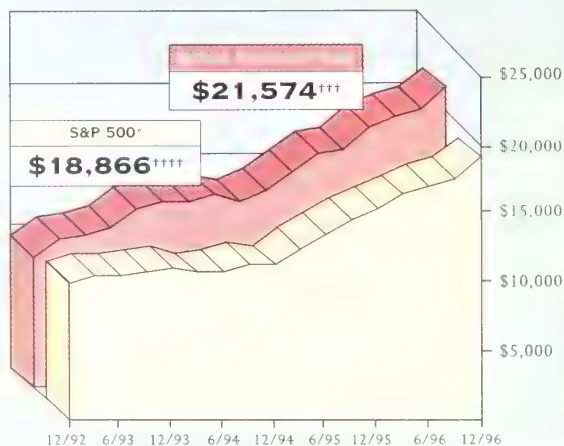
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^{†††}Performance figures shown pertain only to Class I shares of the fund. Class II shares are subject to different fees and expenses which will affect their performance.

Cumulative total returns show the percent change in value of an investment and average annual total returns represent the average annual increase in value of an investment over the indicated periods ended 12/31/96. All calculations have been restated to reflect the current, maximum 4.5% initial sales charge and assume reinvestment of dividends and capital gains at net asset value. Returns have not been restated to reflect Rule 12b-1 fees

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IN ALABAMA, THE SOUL OF A NEW MERCEDES?



Creeping along to ensure quality, the U.S. plant will launch the carmaker's first sport-utility vehicle this fall

When German auto maker Mercedes-Benz began to hire workers for its brand-new, \$300 million plant for sport-utility vehicles on the outskirts of Tuscaloosa, Ala., it left nothing to chance. More than 40,000 applied for the 650 well-paid jobs, and company executives subjected thousands of the better candidates to as many as 80 hours each of intensive assessment. "It was the most difficult hiring process I had ever been through," says 38-year-old Lynn Snow, from a tiny town nearby.

Mercedes was looking for a certain type of person—strong on team skills, concerned with continuous improvement, and impressed with the importance of producing only the best. Snow made the cut in March, 1996, and, like 160 fellow Alabamans, was shipped off to work in a Mercedes plant in Germany.

There, she lived and worked side by side with German employees for a month; some others stayed for up to six months. And when it was time to come home, Mercedes sent along more than 70 German colleagues to act as trainers in Tuscaloosa.

Today, Snow works on the door line of the Alabama plant, and Mercedes trainers remain by her side, double-checking the vehicles as they roll off the line—to make sure that they meet the fabled Mercedes standards. Although Snow had doubts whether the Germans and the Americans would mesh well, today she counts herself among the converted. Echoing her bosses, Snow proudly proclaims: "We are determined to build a quality vehicle."

HIGH STAKES. Mercedes execs are about to find out before an even tougher audience if they've succeeded. This month, the luxury carmaker is taking the wraps off Tuscaloosa's own all-new M-Class sport-utility vehicle by letting dealers and press get behind the wheel. One thing is clear: Mercedes cannot afford bad reviews.

The stakes extend well beyond the M-Class. In Alabama, Mercedes is not

CREAM OF THE CROP: More than 40,000 applied for 650 jobs in Tuscaloosa

simply building its first sport-utility vehicle. It's building its first SUV in its first foreign plant, with its first non-German workforce. Even though the auto maker took a big gamble relying on workers who have never built an automobile—let alone a Mercedes—it had little choice.

To keep growing, Mercedes executives know they must broaden their customer base to include younger, less affluent buyers. That means sportier, cheaper models—and an escape from the trap of high-priced labor at home. The M-Class is just the first in a series of new vehicles Mercedes is launching, and the first of several foreign plants planned. "It was once sacrosanct to talk about our cars being 'Made in Germany,'" says Jürgen E. Schrempf, chief executive of Mercedes' parent, Daimler Benz. "We have to change that to 'Made by Mercedes,' and never mind where they are assembled."

Consumers won't be able to check out the M-Class until the fall, when it hits showrooms. But so far, dealers and

the automotive press have been impressed. The vehicle wins high marks for its state-of-the-art four-wheel drive, independent front and rear suspension, and door-mounted side-impact bags. Its sleek design—which overpowers the boxy rival SUVs that glut the market—has also won raves. Best of all, Mercedes promises a base price of \$35,000. That's not cheap, but it's early in line with the popular, fully loaded Ford Explorer or Jeep Grand Cherokee—and they don't sport a luxury lineage.

Even the opposition has good things to say about the M-Class. "You see a Mercedes that's going to go for \$40,000 or so—well, I'd be tempted to buy one," says Michael W. Lowe, owner of two Jeep dealerships in Georgia. "They've got that great brand name."

Still, great brand or no, the M-Class will have to prove it can measure up to the competition in performance and handling. "The only downside to starting a new segment is if it's a bad product," says John Sessa, an analyst at Schroder Berthel & Co.

To avoid launching a lemon, Mercedes has taken a slow and steady approach. Since the first SUV rolled off the line in mid-February, Mercedes has maintained a glacier-like production pace. With the German trainers' double-checking production as it flows out of every work station—the body shop, paint shop, and assembly line, the plant is turning out just 10 vehicles daily. And it's operating only one shift; a second won't go to work until September. Although Andreas Renschler, the 38-year-old engineer-turned-executive who has

headed the M-Class since its start in 1993, expects production to reach 100 units a day by July, it will be at least a year before it hits the anticipated 270 vehicles a day required to meet its 200,000 annual output. "Volume is not the priority here," insists Schrempf. "The priority is quality, quality, quality."

EQUALITARIAN. But ensuring that its fledgling workforce in Tuscaloosa can turn out a Mercedes-quality product has required more than just going slow. "In Germany, we don't say we build a car. We say we build a Mercedes," explains John Schoolman, a 31-year-old trainer from a plant in Sindelfingen. "We had to teach that." And the lessons had to be taught in a way that would appeal to American workers.

That meant going egalitarian. So company execs abandoned the strict hierarchy of the typical Mercedes production line

in Germany. For Tuscaloosa, they borrowed heavily from Japanese rivals, hiring away several key managers from Toyota and Nissan plants in the U.S. They designed a plant in which the workers can unilaterally stop the assembly line to correct manufacturing problems. The plant has much less automation than typical German factories: Robots are used only to put in windshields. And everyone works in teams, which meet each morning to discuss problems with the trainers. "From the first day we went into the plant, they talked about teamwork," says Joseph McCarthy, a 38-year-worker on the trim line. "There's always somebody to help you."

Renschler has also worked hard to build a casual, cooperative atmosphere. No one sits in an office except him, and the *de rigueur* uniforms, even for

buildup of economic benefits. Indeed, the introduction of Mercedes has begun to transform the university town. As many as nine different auto-parts suppliers are moving to the area. Together, they've brought with them \$225 million in additional investment and 1,200 new jobs. As at Mercedes, many of these factory jobs are well paid—offering more than a 50% premium on the average \$8 to \$10 an hour local manufacturers had paid.

GERMAN LESSONS. Those benefits have been widely felt. Tuscaloosa County's unemployment rate dropped by nearly one percentage point in one year alone, while nearby Birmingham—itself once a city of steel mills—has also profited. "We didn't pay all that money just to get Mercedes," says Neal Wade, president of the Economic Development Partnership of Alabama.

Locals, too, have warmed to the visitors. Now, Tuscaloosa schoolkids are taking German classes so they can baby-sit with the Mercedes trainers' children. German-language stations are included on local cable TV. And Tuscaloosa's traditional annual city festival has become Weindorf, an outdoor party featuring German food, beer, and music, all courtesy of Mercedes.

The celebrations are apt to grow bigger still: With the imminent introduction of the M-Class, Mercedes is talking about the next stage. Schrempf argues that there is considerable room to expand in Tuscaloosa and to extend the SUV lineup. The first year's production will have V-6 engines, but Mercedes is already planning to add a V-8 version by 1998. And another Mercedes exec hints that a super-luxury model selling for more than \$50,000 is a real possibility.

Still, some analysts question whether Mercedes has moved too slowly into a crowded field. While the SUV market in the U.S. has been climbing steadily in recent years, many suspect that it is close to peaking at its current level of more than 2 million units a year.

Dealers, however, share none of this pessimism. Many concede they are already unofficially booking orders. Says Garth L. Blumenthal, general manager of Fletcher Jones Motor Cars Inc., a huge Mercedes dealership in Newport Beach, Calif.: "Our customers have been asking for a Mercedes-Benz sport-utility vehicle for the past 10 years." Mercedes and its Tuscaloosa workers have to hope that they aren't tired of waiting.

By Bill Vlasic in Tuscaloosa, Ala.

NOT YOUR FATHER'S MERCEDES



THE ALL-NEW M-CLASS A sleek, six-cylinder, four-wheel-drive vehicle with independent front and rear suspension. About 70,000 a year will be produced in Tuscaloosa. Will hit U.S. and European showrooms this fall.

Cost: \$35,000

Renschler himself, are polo shirts with names embroidered on the pocket. The collegiality extends beyond the plant, with Renschler often taking small groups of workers out for dinner or a beer after work. "The most important thing is to bring together the two cultures," he says. "You have to generate a kind of ownership of the plant."

Still, getting there has not always been easy. The state of Alabama badly wanted to win the plant—and coughed up \$250 million in tax benefits and other aid to get it—but local residents at first worried about its impact. "There were some mixed emotions from some people when Mercedes came," says Snow. "Were there going to be lots of outsiders? Would everything change?"

Mercedes' enthusiasm helped dissipate many of those fears, while the rest have been dimmed by the rapid

CARNIVAL'S WORLD CRUISE

Micky Arison is taking the company global

Even before its inaugural cruise, Carnival Corp.'s newest ship, the *Destiny*, won kudos. Not only is the 3,000-passenger cruise vessel the world's biggest, but it features a stunning atrium and amenities such as a 15,000-square-foot health club. Still, over dinner on an introductory excursion for travel agents and reporters last November, Carnival Chairman and Chief Executive Officer Micky Arison fretted about how guests would react to a risqué scene in the floor show. His anxiety didn't subside until the show was met with sustained applause.

You'd expect a man who has enjoyed Arison's success to be more relaxed. He was only 30 when his father, Ted, turned the helm of Carnival over to him in 1979. The Miami-based company had just three ships, \$45 million in revenues, and a revolutionary strategy of bringing cruises to the masses. Since then, Micky, now 47, has built it into the world's No. 1 cruise company. Altogether, its four brands—Carnival Cruise Lines, Holland America Line, Windstar Cruises, and Seabourn Cruise Lines—boast 25 ships. In 1996, it posted profits of \$566 million on \$2.2 billion in revenue.

GROWTH SEEKER. But Arison is hardly kicking back. He's looking for growth abroad, "where we haven't scratched the surface at all." Last May, Carnival took a 29.6% stake in British tour company Airtours PLC. In September, Carnival and Hyundai Merchant Marine Co. launched Carnival Cruises Asia, which will begin operations in 1998. And in December, Carnival and Airtours announced plans to buy Italian cruise operator Costa Crociere for \$300 million. Wall Street isn't fretting: Carnival stock hit a split-adjusted all-time high of 37½ on Mar. 5, before receding a bit.

Even as he preps Carnival for global growth, Arison is adjusting to his visibility as managing partner of his family's National Basketball Assn. franchise, the Miami Heat. Soon after the family regained managing control in 1995, Arison set about luring legendary former New

York Knicks Coach Pat Riley. To do so, he made Riley president and an owner, in a package valued in the sports press at more than \$30 million, a figure Arison won't confirm. Subsequently, the Heat gave the Knicks a first-round draft pick and \$1 million to settle charges of tampering without admitting fault and to compensate for the year left on Riley's contract.

His pursuit of Riley—and the costly trades that followed—show how far Arison will go to get what he wants. Riley praises his passion: "He feels the wins, is miserable after the losses, and watches every game while traveling." Now the once lackluster Heat is in a division race, and the number of sellout games has nearly doubled from two years ago.

During the dustup over Riley's hiring, some New York sportswriters depicted Arison as a willful rich kid. Yet his start in the family business was hardly grand. As a teen, he worked for his dad at Norwegian Caribbean Lines, running bingo games and helping with shore excursions. In 1972, Ted founded Carnival Cruise Lines with a tiny staff and one old ship, the *Mardi Gras*, which ran aground on its first cruise. Micky pitched in for months before an executive got Ted to put him on the payroll.

He began in sales, which made him comfortable, he says, with the business' marketing and social aspects. Ted says that as his son moved up, he didn't want to fire loyal executives in key



The Arison File

TITLE Chairman and chief executive, Carnival Corp.

AGE 47

EDUCATION Attended University of Miami.

JOB HISTORY In 1979, at 30, took helm of Carnival Cruise Lines, founded in 1972 by his father, Ted. Became chairman in 1990. Since 1979, revenues have climbed from \$45 million to \$2.2 billion.

MOONLIGHTING Runs family-owned NBA team, the Miami Heat.

FAMILY Married, two teenage children.

posts to let Micky advance. So he stepped aside. Over dinner one night, he told Micky he wanted him to be president. "I'm ready," Micky says he replied. "But I'm not so sure you are."

The next day, Ted set up shop in a Miami office building and began referring all Carnival calls to Micky—important steps in smoothing the transition, say the Arisons and other Carnival execs. Timing helped, too. "If the company had been too big or public, I might not have had the courage" to elevate Micky, Ted says. Micky says he felt "numb" the first four months.

His experienced crew helped. While Micky rarely sought advice from his father, who remained chairman, he kept a group of key executives—Robert H. Wilkinson, Meshulam Zonis, and Maurice Matmati—and hired a new chief financial officer, Howard Frank. All four are still top managers. They've stuck, they say, because Micky, who became chairman in 1990, has an open, measured style and delegates authority. Throughout his career, he has "matured and developed, and for someone with the success he's had, he's handled it very well," says Richard E. Sasso, president and CEO of Royal Celebrity Cruises Inc.

Early on, Micky ran operations, Ted Persaw ship construction, and Carmine mushroomed. In 1987, it went public, raising \$400 million and setting the Fisons, who control 70% of voting power, on the path to becoming billionaires. Micky began scouting for other brands, buying Holland America in 1989.

ATTERED CRYSTAL. Not every venture worked out, of course. A notable setback was a move into hotels with the 876-room Crystal Palace in the Bahamas. Construction cost more than expected, Arison says, and running hotels turned out to be fundamentally different from operating cruises, where the guests' experience can be better controlled. Carnival took a \$135 million write-off in 1991 and sold the hotel. Still, that failure gave rise to two other ventures—a partnership with a prominent hotel-management firm now called Carnival Hotels & Casinos, and Carnival Air, wholly owned by Micky, which was launched to ferry guests to the hotel. It now has 27 planes providing scheduled service in the Northeast, Florida, California, and the Caribbean.

Carnival's international expansion appears to be off to a solid start. Airtours' stock has roughly doubled since Carnival took its stake, and Chairman and CEO David Crossland says "the chemistry is better today than when we did the deal." Airtours' extensive tour operations already help feed Carnival's ships. And the combination of Airtours' experience with European travelers and Carnival's cruise expertise augurs well for the Costa acquisition, which should be completed by late spring.

Arison, his casual air notwithstanding, obsessively sweats the details. In contrast to his father, whom he calls an optimist, Micky is an admitted worrier. "I carefully watch my ways of understanding the business, and through a variety of reports watch how business is proceeding," he says. So far, Arison's blend of determination and fretfulness has proved the right combination to propel his company and his team.

By Gail DeGeorge in Miami

Information Processing

THE INTERNET

NET GAMES ARE DRAWING CROWDS

Even though profits seem far off, big guns are rushing in

For Cherie Conner, playing Scrabble with friends at a local club was a way to forget the stress of directing airplanes at Prescott Airport in Arizona. But ever since her husband gave her a CD-ROM version of the game last Christmas, things have changed for the 40-year-old air traffic controller. Rather than hop in her car for her jaunts to the club, she now jumps on her personal computer and heads to a World Wide Web site called Mplayer. There, she spends one to three hours a day playing against other Scrabble fans.

"I know," she confesses. "I'm addicted."

It's tales like this that are setting the stage for a Doom-like battle on the Internet. For nearly a year, a dozen Net startups, including Mpath Interactive Inc., the Silicon Valley company that runs Mplayer, have been beating the drums for online gamers. And while the bulk of the Net struggles to find cybernauts willing to pay for any kind of content, gamers are, well, game—to the tune of some \$127 million this year, says Forrester Research Inc.

A GOLD RUSH? That isn't going unnoticed by the big guns—and now online gaming is about to get serious. On Mar. 10, heavyweight Microsoft Corp. telegraphed its plans to be a major online gaming company with the revamp of its Internet Gaming Zone site. This summer, America Online Inc. will join the fray when it offers its 8 million members a three-dimensional gaming world, CyberPark. And MCI Communi-



THE LONG VIEW

"We want to be the biggest name in online games," says Fries of Microsoft, and deep-pocketed players have a big edge—they can wait for black ink

cations Corp. plans to launch a service this year that allows computer users to play their favorite CD-ROM games with others over an MCI network. "We are definitely in a gold-rush mentality," says analyst Seema Chowdhury of Forrester.

But no one is likely to hit the mother lode soon. While online gaming could reach \$127 million this year, it is but a fraction of the \$2 billion market for CD-ROM games and entertainment software. What's more, there are technical glitches that still need to be ironed out. Chief among them is so-called latency, or the time lag of sending small packets of data across a global network, such as the Internet. When the Net gets bogged down, these chunks of data can take a long time to reach each player's computer on the Net, making games jerky.

Then there's the fee factor. Companies are still fiddling with just how much to charge players. In February, Mpath, for example, reduced its \$19.95

monthly rate to \$29.95 a year and added a "free zone" of its more basic games—moves that more than doubled its number of subscribers. And NetPlay Inc., a San Diego startup that will offer card games such as poker starting Apr. 1, will try a mix of approaches: up to three hours a month free to grab the attention of casual users, who may then pay \$20 for six months of unlimited use.

The bottom line: Online gaming could reach \$1 billion in the year 2000, says Forrester, but most companies won't be profitable. "Everyone thinks this is a home run," says Chowdhury. "But it takes years and a sinkhole of investments until you hit mass-market numbers."

TEAMING UP. That gives deep-pocketed players such as Microsoft an edge. The software giant has been testing card games with users of its Internet Explorer browser since last May. But now the newly launched Web site, www.zone.com, is available to anyone with Net access and lets owners of CD-ROM games, such as Microsoft's *Monster Truck Madness* or *Microsoft Golf*, play against other owners online.

Microsoft also is teaming with game companies, such as Hasbro Interactive Inc., which will make its CD-ROM versions of *Monopoly*, *Risk*, *Scrabble*, and *Battleship* work over Internet Gaming Zone. "We want to be the biggest name in online games," says Ed Fries, general manager of Microsoft's Entertainment Business Unit.

Internet Gaming Zone is well on its way. Since last May, the gaming site has attracted more than 200,000 registered players. That's more than double what either Mpath or gaming pioneer Total Entertainment Network (TEN) has managed over the past year (table). The secret to Microsoft's success? It's free. Microsoft is banking on ad revenues to pay for its Web site—and the Web site, in turn, will increase sales of its CD-ROM games. Microsoft

figures 10% of the retail sales of *Monster Truck Madness*, for example, have been due to its online component.

QUAKE IS AIMED MAINLY AT MEN



The cross-pollination between online games and CD-ROM sales is becoming a big lure for companies. Take Berkeley Systems Inc. of Berkeley, Calif., which has sold 500,000 CD-ROMs of its sassy, TV-like trivia game called *You Don't Know Jack*. The game now has a separate life online at Berkeley's

Indeed, lots of companies are looking at ways to make "pay-for-play" work. Just ask Interactive Magic, a software maker in Research Triangle Park, N.C. The company is testing *Warbird*, an online-only flight simulator that links thousands of cyberpilots simultaneously on its Web site, and charging \$1.95 per hour. "We perceive our growth to be 100% to 300% online over the next year," says Chairman J. W. "W. Bill" Stealey.

Others are betting that online gaming will appeal to an older audience than the teen crowd addicted to twitch-and-trigger video games. Mpath, for example, says a survey of its

The Scorecard

COMPANY/NUMBER OF USERS

**MICROSOFT
INTERNET GAMING ZONE**
200,000

**TOTAL ENTERTAINMENT
NETWORK (TEN)**
26,000

MPLAYER
50,000

AMERICA ONLINE
8 MILLION

**BERKELEY SYSTEMS
BEZK**
80,000

DESCRIPTION

The Web site hooks up players with online versions of its own games, as well as *Monopoly* and others from Hasbro. With no subscription fees for now, it relies on advertising for revenue.

Features 10 popular games, including *Quake*. Subscribers have two ways to pay: \$29.95 a month for unlimited use or \$1.95 per hour.

Mplayer offers popular games such as *Diablo*. Its pricing recently switched from \$19.95 per month to \$29.95 per year.

The No. 1 online service plans to unveil *CyberPark* this summer. Members will roam a virtual 3D theme park filled with games. Pricing is expected to be an additional charge over AOL's \$19.95 monthly fee.

A popular game, *You Don't Know Jack*, hits the Net on this new Web site. Free to users, beZerk will depend on ad revenues.

DATA: COMPANY REPORTS, BUSINESS WEEK

Web site, www.beZerk.com, which executives say could boost retail sales. "We think there's a halo effect," says Chris Deyo, vice-president for marketing.

Since December, 80,000 members have signed up for the free service, playing "netshows" of *Jack* for points and prizes. And, since beZerk's version of the game feels like a televised trivia contest, ads are a natural. Net contestants are cleverly fed 10-second commercials from sponsors such as 7-Up, New Line Cinema, and Plymouth.

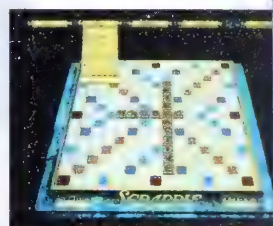
At TEN, CEO Jack Heinstand has been reluctant to convert entirely to an ad-supported service. "The risk is, if all of us think this is the way to compete, it becomes a commodity," he says. Instead, TEN will try to differentiate itself by partnering with software developers to create exclusive online-only games so compelling that members will pay.

rate: \$9.95 per month.

Perhaps the biggest such undertaking is *CyberPark*. Developed by Imagination Network (INN), an online game service acquired in 1996 by AOL, it will be a virtual theme park where members can wander around, chat, and play various games. In addition to AOL, Dean DeBiase, president of INN, says it's working to sign deals with other Internet service providers as well. And by signing up developers to create exclusive games, DeBiase thinks consumers will flock to *CyberPark*. "This is the fun button in cyberspace," he says.

It's too early to tell whose games will win. But as the companies and pricing plans battle it out on the Web, it will be the game players, such as Cheri Conner, who will be raking in the windfalls and having all the fun.

By Paul M. Eng in New York



SCRABBLE DRAWS FROM BOTH SEXES

users shows only 30 are teens. That's leading to the development of more grown-up fare, such as virtual worlds that emphasize role playing and community-building. 3DO Co. Meridian 59, for example, links thousands of players from around the globe in an imaginary medieval world of sword and sorcery. The



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Information Processing

TELECOMMUNICATIONS

MCI: DON'T COUNT THE CHICKENS JUST YET

It faces a massive merger, smaller rivals, and costly expansion

There's been a certain amount of gloating around MCI Communications Corp. over archival AT&T's endless string of bad news. After all, while AT&T has seen its share of the long-distance market drop a full percentage point in the past year, to just under 54%, MCI has held its share steady at around 18%. "This is a great time," says MCI President Timothy F. Price.

Is it? For years, MCI was the one snagging market share from AT&T, but now a host of smaller competitors are making life tough for MCI. In fact, the No. 2 long-distance carrier is facing many of the same challenges as AT&T—namely defending its core long-distance business in a far more competitive market while making a costly push into local calling. At the same time, MCI must manage the most wrenching transition of its 25-year history—its planned \$22 billion merger into British Telecommunications PLC, expected to close by yearend.

Granted, MCI can learn from its British counterparts. In late February, 15 BT executives flew over to explain to MCI how their own local-calling and billing systems work. But too much input from BT could make MCI bureaucratic—and trigger an exodus of the most aggressive employees. Some MCIers are already circulating résumés, according to an executive at a rival company. "My No. 1 job is to make sure MCI remains MCI," vows Price.

DEEP POCKETS? This is hardly a good time for such distractions. MCI has invested \$1 billion building local-calling networks in 20 cities, and says it will spend an additional \$700 million this year. UBS Securities Inc. analyst Linda



PRICE: "My No. 1 job is to make sure MCI remains MCI"

B. Meltzer figures MCI won't turn a profit on the local business unit at least 2000, and the increased spending will keep 1997 earnings flat or down slightly from last year's net of \$1 billion.

With the BT deal, MCI should theoretically have deep pockets to draw from. But don't look for big dollars to flow from BT's coffers any time soon. The British phone company must also devote resources to competing in Europe and to its home market, where it is under political pressure to upgrade aging phone networks.

The takeover should, however, boost MCI's core long-distance busi-

ness. Once the merger goes through, MCI will be able to offer a global menu of voice and data products, giving it more clout with corporate customers. MCI has been chasing such business for years in an effort to reduce its exposure in the volatile, low-margin residential market. Two-thirds of MCI's revenue now comes from business subscribers, up from about 50% five years ago. "They are unquestionably No. 1 in terms of serving multinational customers," says Forrester Research Inc. analyst David Goodtree of the BT MCI team.

But the business market is getting tougher as well. Upstarts such as WorldCom Inc., the fourth-largest long-distance carrier, are focused almost exclusively on corporate customers. Add to that the entry of the Baby Bells into long-distance in the next year or two, and you have a recipe for sharp price declines. It looks as though MCI may have to cut back on the gloating.

By Amy Barrett in Washington, with Julia Flynn in London

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EXECUTIVE SUITE

DOW JONES AIN'T BROKE...

So why fix it, asks CEO Kann prior to a tense annual meeting

Things are looking a bit dicey for Dow Jones Chairman and Chief Executive Peter R. Kann. The 54-year-old former journalist faces a small but vocal group of shareholders who are demanding that he reverse Dow Jones & Co.'s sorry financial performance of the past decade. For years, Dow Jones quietly underperformed the market with little notice. But now, pressure on Kann is mounting. Activist investor Michael Price recently bought a large stake, as has outspoken fund manager James Cramer. Some changes are already under way. Frequently absent Director Carlos Salinas, the former Mexican President, is leaving the board, and less controversial figures, such as American Express Chief Executive Harvey Golub, are coming on. Overall, however, Kann is unapologetic about the performance of the company under his watch. And with the majority of the Bancroft family, which controls the company's voting shares, still backing him, he shows no sign of worry as he anticipates the company's Apr. 16 annual meeting. Kann spoke recently with *BUSINESS WEEK* Media Editor Elizabeth Lesly about his situation.

Q: Are you [and the rest of Dow Jones's board] committed to going forward with the plan to invest an additional \$650 million in Telerate, given Wall Street's dismay over the plan?

A: There has been a lot of misinformation about Telerate [Dow Jones's financial data service]. This has been a very good business. The fact that in the last 18 months or so the business slipped some, stagnated—whatever word you want to use—doesn't change [that] fact. It's a growth business and clearly worth investing in and re-investing in.

Q: Given the makeup of your board, with several inside directors, two classes of voting stock, and some outside directors who are too busy to attend many meetings, its effectiveness seems ques-

tionable. How effective is your board?

A: That this has been, in some sense, an inactive or weak board just is not the case. [If four newly nominated directors are elected at the annual meeting], we'll have a board that includes six active CEOs, and 12 of 15 directors will



JUST BAD INK? “I think that the turmoil is [confined to] the pages of a couple of tabloid newspapers” —PETER KANN

be nonmanagement. So I think the board does not merit most of this criticism [found in] the tabloid press.

Q: The Bancroft family controls Dow Jones & Co. through a separate class of super-voting stock. Do you think that such an arrangement serves all share-

holders equally well? Are separate voting classes defensible?

A: Yes, separate voting classes make a whole lot of sense, particularly in the case of a company like Dow Jones or, indeed, a number of what I call premiere publishing companies. That has served to protect the independence of the company and the editorial independence of extraordinarily important publications like *The Wall Street Journal*. In that sense, I think the two-class stock is in the interest of all shareholders.

Q: Why is Dow Jones's dividend so high when the company appears to need heavier investment in its core businesses? Given the current circumstances, should Dow Jones be paying out a dividend at all?

A: We can afford the dividend. This has always been, and remains, a very profitable company with very strong cash flow. The dividend as a percentage of cash from operations was 23% in 1996, compared to an average of 30% in our industry.

Q: No one disputes that *The Wall Street Journal* is a great newspaper. Is Dow Jones a great company?

A: I think that the future of this company is very bright. In my view, brighter than ever. *The Wall Street Journal* franchise is actively expanding in all kinds of new directions [such as] successful international editions, Internet publishing, and *Smart Money* magazine. We've got an extraordinary array of unique proprietary content [that] is going to have in-

creasing value in a world in which content, above all, is going to matter.

Q: How do you judge your own performance? Are you the best Chief Executive to lead Dow Jones at this point?

A: Yes. Well. I think in any job like this, you wind up making some large

and fairly tough decisions, and sometimes it takes some time for others to fairly judge the wisdom of those decisions. I'm going to leave it to my board to assess my performance. Their assessment is much more relevant than my own would be, and it would be substantially less self-serving.

Q: It has been reported that General Electric Co. would be interested in taking a stake in Dow Jones. How would you view such a relationship? Do you believe that the Journal and your television assets would meld well with NBC's operations?

A: The board and the Bancroft family have made it clear that Dow Jones intends to remain fully independent. I've got a lot of admiration for Jack Welch. I see some nice programming on NBC. But I think we are doing fine on our own in at this point.

Q: So you would not welcome any investment from GE or anyone else?

A: I'll just stick to that answer on that question.

Q: Is it unthinkable that The Wall Street Journal would have a change in control or ownership?

A: It is unthinkable that Dow Jones could have a change in control or ownership. Thus, it's unthinkable that The Wall Street Journal would.

Q: How extensively will the Journal cover the turmoil at the company?

A: I think that the turmoil is [confined to] the pages of a couple of tabloid newspapers. I do not think there is turmoil at Dow Jones. I think we have some business issues that we are addressing.

Q: Do you feel that this [interview and other] coverage of the company over the last few months is not a valid story?

A: No, I didn't say it's not a valid story. Anytime a pretty high-profile company has a business problem, that's a story. The fact that a couple of people in a family choose to go to the press to criticize the company is, up to a point, a valid story. Their significance has been somewhat exaggerated, if you put them in the context of this larger family. I'm not suggesting that Dow Jones shouldn't be covered as a legitimate business story. [However] there's a level of—again, for lack of a better word—tabloid coverage that can sort of go beyond what's factual. But we're not the first company in the world to complain about that. I've been in journalism long enough to understand that that's how the world works. You know, it's somewhat more fun to cover than can be covered.

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March 31, 1997

New York

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\$59,500,000



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March 31, 1997

New York

DEALS

NOW SHOWING IN IMAX: MONEY!

The giant-screen technology will even bag an Oscar



every "major studio about working in the Imax format." While some moguls remain skeptical, "Brad's probably right that with a real motion picture, he could do tremendous business," says Universal Studios CEO Frank J. Biondi Jr. Indeed, *Star Wars* creator George Lucas recently predicted that "you're going to see more people making movies for those [Imax] screens."

Indeed, Imax is now seen as a hot prospect. In 1996, earnings quadrupled to \$15.4 million, as sales surged 47% to a record \$130 million. That has helped power the stock to \$35, up from a low of \$7 in early 1995. For Wasserstein

GELFOND & WECHSLER:
The co-CEOs teamed with Wasserstein to acquire Imax in '94

which acquired its current 39% stake at little more than \$2 a share, "this is probably the most successful deal we've ever done," says Managing Director Marc Uday.

Wechsler and Gelfond, who now serve as co-CEOs, are an unusual team. While intensely driven, "by Hollywood standards, they are low-ego," says one of Imax' institutional investors. That has helped them convince Sony Corp., for instance, to partner with them both in launching commercial theaters and making Imax movies. "It's been a home run for us in a variety of ways," says Mitchell Cannold, president of Sony

New Technologies. Since the Sony Imax Theater near Manhattan's Lincoln Center opened in late 1994, it has often "been the highest-grossing screen in the U.S.," marvels Lawrence J. Ruisi, president of Sony Retail Entertainment.

Though the big studios have shied away from Imax because of the limited number of theaters

that's now changing. Sony, which made the first two films in Imax 3-D, now "has a dozen new projects in development," says Cannold. Wechsler says evolving digital technology will soon give Imax the ability to produce versions of films such as *Twister* and *Independence Day*.

Imax faces some competitors, but it's clearly the leader. And measured against the potential, Imax "has just barely scratched the surface," says former Home Box Office chairman Michael J. Fuchs, an Imax director. It has taken 30 years, but it looks like the really big screen is here to stay.

By William C. Symonds in Toronto

EXTRA-LARGE PLANS

BUILD COMMERCIAL THEATERS Double theater network to 300 within five years, partly by getting chains to include an Imax in new multiplexes.

EXPAND INTERNATIONALLY Step up marketing to reach goal of 150 theaters outside North America in five years, up from 63 now.

BROADEN FILM MIX Work with Hollywood studios to produce commercial films. One early possibility: A 3-D *Star Trek* movie.

Humongous screens. 3-D effects. And, of course, the special glasses. They were all the rage in the '50s. Since then, multiplex screens have shrunk almost to the size of TV sets. As for 3-D and glasses, well, forget about it.

Not any more. Toronto-based Imax Corp. has improved on the old technologies, built theaters with screens up to eight stories high, and even equipped some with electronic goggles and personalized sound systems that produce an extraordinarily realistic 3-D experience. On Mar. 24, Imax will receive this year's sole Academy Award for Scientific & Technical Achievement. And two Imax films have also been nominated for Oscars.

BOLDLY GOING? Now, Imax, which has attracted 510 million people to more than 100 films since 1970 (mostly 2-D), has plans as big as its new screens. It wants to at least double its network of 149 theaters within five years. And it's negotiating with several Hollywood studios, including Paramount Pictures Corp., which is interested in producing a *Star Trek* film in Imax 3-D. "We're on the verge of a breakthrough" that will make Imax "the principal medium for spectacular films," predicts Graeme Fer-

guson, the filmmaker who helped found the company in 1967.

Ferguson and two partners initially had trouble getting the idea off the ground. Problem was, as a private company, Imax was "severely undercapitalized," Ferguson admits. In 1993, he and his partners put it up for sale. The winning bidders were a pair of New York entrepreneurs who met while working at Drexel Burnham Lambert: Bradley J. Wechsler, now 45, and Richard L. Gelfond, 41. They teamed with buyout firm Wasserstein Perella & Co. to acquire Imax for \$100 million in March, 1994, and then took it public that June.

Now, Wechsler says he is talking with

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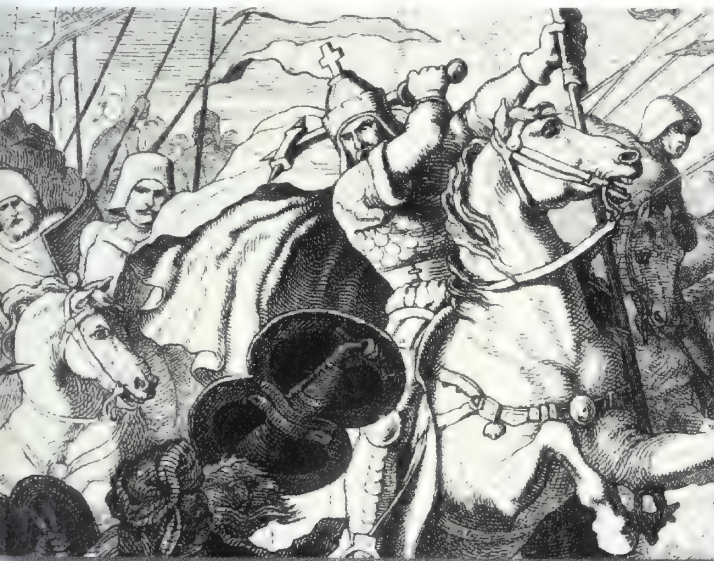
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A GENE TO MAKE GREENER BLUE JEANS

But Genencor's less polluting bio-dye is having a rough time cracking the market

In the early 1980s, investor George Rathmann had big plans for his new company, Amgen Inc.: Not only did he hope to use biotechnology to revolutionize drug development, but he envisioned using gene-spliced bacteria to turn cheap chemicals into plastics, lubricants, and other high-value industrial products. Rathmann later abandoned the second goal, but an experiment-gone-wrong from that pursuit could soon be making blue jeans a little greener.

The experiment began when Amgen researchers discovered that an enzyme found in certain bacteria could convert inexpensive naphthalene, the key ingredient in mothballs, into a much more expensive ingredient called alpha-naphthol that is used in making dyes and some plastics. By splicing the gene for

most popular dye. It was then selling at about \$10 per kilogram. Alpha-naphthol was going for under \$2 and naphthalene for a few pennies. Plus, existing indigo synthesis requires noxious chemicals, such as cyanide and formaldehyde. And it produces toxic effluent. Amgen's process simply required some cornstarch to "feed" the cells—and had no toxic byproducts. "We thought we had the Holy Grail," says Rathmann. Indigo, not alpha-naphthol, became the target.

That was almost 15 years ago. With big profits much more likely from new drugs, Amgen—like many biotech companies—dropped its industrial enzyme research. Today, the indigo technology, sold to Genencor In-

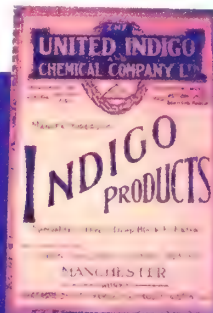
trick of turning test-tube science into reliable, large-scale production. But more fundamental block for bio-indigo that established manufacturers have been loath to alter decades-old production processes—citing both economic and quality concerns about the new dye.

Now, those concerns may be lessening. Genencor, a joint venture of Eastman Chemical Co. of Kingsport, Tenn. and Finland's Cutor Ltd., has used some nifty chemistry and molecular biology to increase indigo yields more than ten-thousandfold. Genencor's vice president for technology development, Karl Sanford, says the cost is finally competitive with the traditional process. And rising environmental concern

around the world may work in Genencor's favor. While it's fa-

A BRIEF HISTORY OF INDIGO

Indigo, a blue dye extracted from the *Indigofera* plant, has been linked to dyes as far back as 1600 B.C. in Egypt. Natural indigo dyes have been found in early cultures in Africa, China, India, and Indonesia.



1630s: British imports of indigo grown in India replace dye made from the local blue woad plant.

1750s: Using slave labor, massive indigo plantations become a mainstay of the American colonial South.



that enzyme into another kind of bacteria, Rathmann envisioned a cheap way to make commercial quantities of alpha-naphthol at a big profit. After the first experiments, though, something odd happened: A mysterious stain turned all of the experiments blue. "We teased the scientist that the cells were in pain," recalls Rathmann. Soon after, a visiting British chemist saw the blighted beakers and recognized the "contaminant" immediately. "That's indigo!" he said.

While some researchers laughed, Rathmann made some calculations: Indigo, used to dye denim blue, is the world's

international Inc. in 1989, is still on the launchpad. It has long been regarded as an example of how biotechnology can offer important new approaches for industry well beyond new drugs. Using nontoxic, renewable resources, genetically engineered enzymes have made headway in treating textile products, improving detergents, and making food additives. But industry has so far been waiting for a high-profile blockbuster product.

Will it be indigo? Like other projects in this arena, delays have stemmed from two sources: The first is the technical

from certain that the dye can crack the \$250 million indigo market, conditions have never been better.

Indigo is the best known of "non-reactive" dyes. It coats only the outside of textile fibers and so wears off over time, making it perfect for achieving the lived-in look and feel of denim jeans. It accounts for some 3% of all dye colors used today—impressive against a universe of thousands of colors that are mixed together to form various shades.

Indigo has a rich and peculiar past. Marco Polo was the first to describe the dye, made from *indigofera* plants

rowing in Asia and Africa in the 13th century. Europeans protecting the market for native dyes made from blue had plants initially threatened death to anyone using indigo. By the mid-19th century, demand for indigo was soaring in the U.S. thanks to a Bavarian peddler named Levi Strauss, whose denim work pants became the uniform of the California Gold Rush.

Indigo's big commercial turning point came in the late 19th century. After 17 years of research, German chemist Adolf von Baeyer invented a synthetic indigo process in 1897 that later won him a Nobel prize in chemistry. Over the next several decades, British owners of large plantations in India planted indigo as a failed effort to compete with the cheap and reliable German chemistry. Planters starved in the process when indigo crops were uprooted.

TRENCHED. By the time Rathmann's firm began considering the blue stain in experiments, the world's major indigo producers—including Germany's BASF group, Japan's Mitsui, England's Imperial Chemical Industries, and Buffalo Color in Buffalo, N. Y.—were making a tidy profit. They had long ago written off their plants and carved up most of the market. So Rathmann got a cool

There were technical snags, too. In fine-tuning the process, scientists were involved in a complicated balancing act with the enzymes in the bacteria. Tweaking one enzyme more than another could send the target byproducts in the wrong direction—making them weak, unstable, even the wrong color. The most notable flub came after Genencor's first big production run of 150,000 yards of denim. The result was too red because the bugs were now squirting out a byproduct called indirubin. After two years of work, researchers spliced in a gene for yet another enzyme that could convert the culprit to a colorless, nontoxic compound. Recently, experts from the textile industry have evaluated Genencor's dye and proclaimed it equivalent to the chemically produced standard.

Genencor CEO W. Thomas Mitchell says the company is committed to the enzyme business and is moving to find a partner to produce the dye. Likely indigo partners still seem unconvinced, however. A spokesperson for BASF, for which von Baeyer worked and which holds 40% of the world's indigo market, says the gene-spliced dye is too weak, adding that the process "is not to be

toxic byproducts of their processes as environmental regulations become more stringent. Old-timers in the Buffalo area remember the days when a rainbow of effluent from the dye plant, then making hundreds of different colors, sometimes streamed over Niagara Falls.

ACID SPILL. Companies have tightened their controls substantially since then, though in January, the Buffalo Sewer Authority fined Buffalo Color for what company officials said was an accidental discharge of sulfuric acid into the sewer system. Even BASF concedes that runoff from its dye process is a concern and says the company has been trying to create greener methods.

Another factor in bio-indigo's favor is that consumer demand is shifting to greener products. Organic cotton is a growing textile category, as is hemp. Oppenheimer & Co. apparel analyst Leslie McCall thinks an eco-friendly ad campaign for jeans based on gene-spliced dye could be a hit. "The younger generation is really sensitive to environmental issues," she says.

Controlling that spin could be tricky, though. Would bio-jeans represent progress to consumers—or conjure ethically itchy reminders of cloned sheep? Genencor's Mitchell wouldn't even touch the question of whether end-users of bio-denim would or should promote that element. Levi Strauss & Co., the world's largest jeans maker, wouldn't comment on the new technology or its prospects.

Genencor says it will find a partner by year-end—but not necessarily an established dye maker. So if Sanford's forecasts of improving yields hold, it may only be a matter of time before bio-dye becomes a low-cost, eco-friendly antidote to the industry's pollution blues.

By Joan O'C. Hamilton
in San Francisco



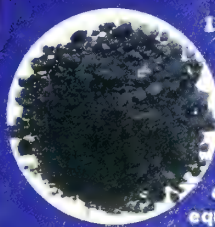
1850s: Bavarian peddler Levi Strauss invents what will become blue jeans, using hemp canvas intended for wagons. He eventually buys all of his

1897: Adolf von Baeyer achieves chemical synthesis of a stable indigo after 17 years of work, for which he later wins a Nobel prize in chemistry.

1980: The movie *Urban Cowboy* revives Americans' long-running but dormant love affair with blue jeans, sparking a sharp increase in indigo prices.



1989: Genencor buys Amgen's process for using a gene-spliced enzyme to produce indigo in the laboratory.



1996: Genencor makes production volumes of indigo dye considered by outside analysts to be equivalent in quality to commercial, synthetic indigo.



reception to his inquiries. At the same time, he was increasingly distracted by the huge potential of EPO, Amgen's blockbuster anemia drug.

That was one reason Amgen sold its technology. Another was that the fervor for biotech versions of industrial chemicals had died down. It looked as if only startups that won patents on products had a chance to break into major chemical markets. Rathmann could never hope to get a patent on ancient indigo. In offering just process improvements, "you'd be overwhelmed by entrenched competition," he says.

taken seriously." Craig McKibben, chairman and CEO of Buffalo Color's parent, Lanesborough Corp., passed on an offer to do joint research and development into biosynthetic indigo. He has no qualms about the technology in theory. "It's really just a cost issue," he says.

Neither the industry nor Genencor will reveal their exact costs, though worldwide prices of indigo concentrate range from \$8 to \$17 per kilogram. One issue, however, is how you measure costs. There is pressure on specialty-chemical makers to figure in the costs of storing, disposing, and cleaning up the

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By Joan O'C. Hamilton
in San Francisco



PACIFIC TRIANGLE

A look at China's growing economic power, and what it means for Japan and the United States.

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Developments to Watch

EDITED BY NEIL GROSS

SWEETHEART, GET ME REWIND

JOURNALISTS MAY NOT NEED TO JUGGLE NOTEBOOKS AND tape recorders much longer. Lisa Stifelman, a 30-year-old graduate student at Massachusetts Institute of Technology's Media Lab, has merged the two in a digital audio notebook. This device eliminates the need to play back or transcribe long interviews or lectures. You simply take notes as usual, while a chip-based recorder captures the sound. When you're finished, tap an audio scroll bar next to any hard-to-read portion of your notes or touch a particular word, and the notebook will replay its recording at that spot.

Developed with support from AT&T, the National Science Foundation, and others, the notebook consists of a magazine-size wooden board fitted with a speaker and microphone. It holds a pad of 5½-inch by 9-inch paper, which sits above a grid of sensors that synchronize the writing with the audio taping. Bar codes on the paper tell the chip what page you're looking at. And the digital pen tells it where you are on the page. Stifelman figures the device would also appeal to travelers who want to preserve sounds in their journals, along with their thoughts. *Scott Lafee*



BETTER PICTURES OF LUNGS AND BRAINS

MAGNETIC RESONANCE imaging, works because atoms behave like a child's top. If you place a person in an external magnetic field, some of the body's spinning hydrogen atoms will line up—a process called polarization. That's the first step toward making crisp pictures of the body. However, MRI has limitations. Only a tiny fraction of hydrogen atoms in the body can be polarized. And organs such as the lungs,

which contain little water—hence little hydrogen—can't be imaged in this fashion.

Now, an improvement in MRI is emerging from research on so-called noble gases such as helium, argon, and xenon. Using lasers, a Princeton University team led by physicists Will Happer and Gordon Cates was able to polarize virtually all of the atoms in samples of two such gases. Working with colleagues at the State University of New York at Stony Brook and Duke University, they showed that standard MRI produces much sharper pictures of mouse lungs when

the animals have inhaled polarized helium or xenon. And because xenon is soluble in blood, the technology should be applicable to other hard-to-image parts of the body, including the brain.

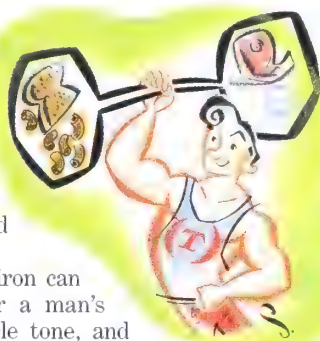
Ironically, Happer didn't set out to improve medical imaging but to probe basic science. The U.S. Air Force funded him in hopes of building a better gyroscope. That never materialized, but MRI is on a fast track. The research team has launched a company called Magnetic Imaging Technologies Inc. in Research Triangle Park, N.C., to commercialize their ideas. *John Carey*

INNOVATIONS

Numerous studies have linked oxygen-bearing molecules known as free radicals to cancer. Now, Johns Hopkins University scientists have shed new light on the mechanism. A report in the magazine *Science* suggests that cancer cells produce large amounts of a free radical called "superoxide," which in turn promotes more cancer growth. In experiments, the Hopkins team found that the ultimate runaway cell di-

vision was slowed by chemical antioxidants—a category that includes vitamin C and vitamin E.

■ Pumping iron can be good for a man's bones, muscle tone, and self-confidence. But if he doesn't eat a balanced diet—including fats—it could ice his love life. Writing in the *Jour-*



nal of Applied Physiology, Pennsylvania State University researcher Jeff Volek notes that the typical high-carb, low-fat diet that is preferred by weight lifters can suppress testosterone levels. And according to Volek, intense physical exercise only aggravates the effect.

SHEDDING LIGHT ON DRUGS

BIG SCIENCE CAN BEAR unexpected fruit. In the early 1980s, physicist John G. Rushbrooke was looking for the top quark at the European Organization for Nuclear Research (CERN) outside Geneva. There he became interested in the light-channeling properties of dense bundles of optical fibers. That led him to create a different kind of imaging device that needs no lens. Now it's poised to give a boost to combinatorial chemistry, a way to make and screen thousands of drugs fast.

Here's how it works: Scientists mix minuscule amounts of computer-designed drug candidates with fluorescent dyes and place them in rows of tiny "dimples" on a plastic tray the size of a file card. The drugs are then combined with biological targets—for example, viruses or bacteria, and the trays are placed on a box containing fiber bundles. If a drug attacks the bugs, the dye gives off a faint glow, which the optical fibers can pick up.

Rushbrooke says researchers can now screen a thousand compounds per minute—a hundred-fold increase in speed compared with other methods. His company, Cambridge Imaging in Cambridge, England, has licensed the technology to Packard Instrument Co., a Meriden (Conn.) instrument maker that will provide prototypes to Bristol-Meyers Squibb, Glaxo, Merck, and other drug outfits. *Susan Jackson*

NOT EXACTLY GANGBUSTERS ON WALL STREET

The NASD forms a task force to root out the Mob—but more spine is needed

It was supposed to have been a routine speech. But when Mary L. Schapiro, chief regulator at the National Association of Securities Dealers, addressed a meeting of New York securities analysts on "Market Trends and Regulatory Responses" on Mar. 17, she dropped a bombshell. Schapiro announced the formation of a task force aimed at attacking Mob infiltration of brokerages. A day later, a longtime securities industry watchdog, Representative John D. Dingell (D-Mich.), released a letter from Schapiro saying that the NASD has "significant ongoing investigations" into all but one of the brokerages—and "many" of the companies—mentioned by BUSINESS WEEK in its cover story, "The Mob on Wall Street" (Dec. 16).

It seemed like an important, even historic, development. For the first time, the NASD, which oversees small-cap brokerages nationwide, seemed ready to take on the Mob presence in the market for microcap stocks. "The influence of organized crime in our markets is an issue that must be aggressively addressed," Schapiro told Dingell. As well as focusing on brokerages,

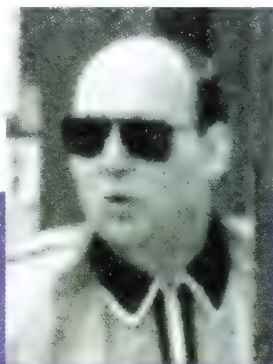
Schapiro said, the task force will examine a crucial but even thornier topic: "the finances and operating activities" of stock issuers. BUSINESS WEEK found that the Mob had exploited the initial public offerings of small companies.

But a number of questions remain unanswered. For one thing, where is the Securities & Exchange Commission? In a letter to Dingell on Feb. 25, SEC Chairman Arthur Levitt Jr. called the reports of Mob involvement cited by BUSINESS WEEK "disturbing"—and offered to discuss the matter privately. But in testimony before Congress on Mar. 19, Levitt said that organized crime's influence was restricted to a small number of firms and said

the Mob was "not as pervasive [on the Street] as may have been suggested."

That view is shared by NASD officials. In her Mar. 17 speech and another address the following day, Schapiro downplayed the Mob's significance on the Street, calling it "disturbing" but also "extremely limited." Indeed, NASD officials have said privately that there is not much of a problem for a task force to address. Two high NASD officials, interviewed by BUSINESS WEEK for the December article, said they were not aware of any Mob presence on Wall Street.

NO NEW TROOPS. Another NASD official who asked that his name not be used cast even more cold water on the view that the NASD is getting into the gang-busting business. No new personnel will be hired for the task force, he noted.



KNOW YOUR FELLOW INVESTOR

He's Alan Longo, an alleged member of the Genovese crime family in New York and a "selling shareholder" in Mayfair Homes and American Fuel

MAYFAIR HOMES CORP.

In its registration filing, Mayfair Homes listed shareholders who included Longo and Romilda Abramo, wife of Philip Abramo, an alleged *capo* in New Jersey's DeCavalcante crime family. Sources say Abramo controls brokerages specializing in small-cap stocks

Name	Warrants Owned	%	Reg. (for)
Romilda Abramo	20,000	1.7	10
Alan J. Longo	20,000	1.7	10
[REDACTED]	50,000	4.1	25

Class B Warrant Holders

	Number of Warrants
Alan Longo	100,000
Maraval & Associates, SA	100,000
Umbiquity Holdings, SA	100,000

AMERICAN FUEL CORP.

Longo's name also shows up on American Fuel's filing, along with those of Umbiquity Holdings, which Philip Abramo allegedly controls, and Maraval & Associates, which was involved in an Abramo-dominated IPO

and he said it would merely "formalize what we have already been doing." Still, the veteran Mob investigator, now in the private sector, feels that the NASD and SEC may have no choice but to act on the Mob's Street connection because it endangers public confidence in the securities markets. "The FBI is committed, and the Manhattan District Attorney's Office has an open case. The question is," he adds, "are they [the NASD] serious?"

If the NASD's commitment is questionable, the answer is much less clear: The Mob is committed. And the NASD and SEC officials want to see just how much it is committed, they need look no further than their own files. They can look at documents filed in connection with two IPOs that never quite got off the ground—for Mayfair Homes Corp., a Georgia-based maker of mobile homes that is still trying to go public, and American Fuel Corp., a small New York company in the coal mining business whose IPO was

withdrawn. Registration statements for both IPOs were reviewed by the SEC and NASDAQ at the time they were filed—and there was something that the agencies evidently did not notice.

The filings by these companies have an intriguing element in common: a "selling shareholder" by the name of Alan J. Longo. The 46-year-old Staten Island (N.Y.) resident has been described by law enforcement officials in court documents as a "soldier" in the Genovese crime family. Both companies identify him as a major owner of stock warrants who would cash out big once the companies go public and share prices climb nicely—as they usually do, at least for a while, in Mob-influenced offerings. American Fuel's chief executive, Robert Barra, says he doesn't know Longo and has no knowledge of any Mob involvement with the IPO. Calls to Mayfair execs were not returned.

In the filing for Mayfair, appearing on the list right beneath Longo is yet another eminent family name in Wall Street Mob circles. It is Romilda Abramo, wife of Philip C. Abramo, who has been described in an FBI court affidavit as a *capo* in the DeCavalcante crime family. Street sources describe him as the leading Mob power on the Street, owning or controlling brokerage houses that specialize in small stocks.

(Neither Longo nor Romilda Abramo could be reached for comment.) Phil Abramo is also alleged by Street sources to control Bahamian companies that were involved in the financing of another recent IPO, for SC&T International Inc. (BW—Mar. 24). SC&T officials have denied knowledge of Mob involvement in the financing of their company. Two of those Bahamian companies, Umbiquity Holdings and Maraval & As-



SCHAPIRO believes Mob stock operations are "extremely limited"

sociates, are listed as selling shareholders in the American Fuel deal.

The Abramo connection does not end there. The lead underwriter of both companies is R. T. G. Richards & Co., a Garden City (N.Y.) brokerage. According to sources who are familiar with the activities on the Street of Abramo—now serving a one-year prison term for tax evasion—the alleged Mob *capo* controls Richards through confederates. Officials of Richards, which changed its name to Matrix Securities on Mar. 1, did not return phone calls. A man named Michael DeMayo who responded to a reporter's call to Matrix, said that he would relay a message to the president of the company, but added that he did not believe that gent would wish to discuss the two IPOs. DeMayo, also listed as a selling shareholder in the American Fuel deal, declined comment on the IPO and said he had no connection with Matrix.

Aside from Longo and Abramo, there are other familiar names in the Mayfair and American Fuel offering documents—hundreds of pages that were combed by SEC and NASDAQ officials. Co-manager of the American Fuel deal was Sovereign Equity Management Corp., which has also been described by Street sources as an Abramo-controlled firm. Sovereign officials have denied Abramo's involvement. And then there are the other investors in the

American Fuel deal—six pages of them, more than 200 names. One of them is Robert Catoggio, a veteran of the penny stock business. According to attorneys for the trustee of the bankrupt Adler Coleman clearing firm, Catoggio was a partner with Roy Ageloff in controlling the now defunct Hanover, Sterling & Co. penny stock house. Street sources have maintained that Ageloff is an associate of Longo and Alphonse "Allie Shades" Malangone. Malangone has been described in court documents as a *capo* in the Genovese crime family. Malangone, Catoggio, and Ageloff were unreachable for comment.

Also included in the American Fuel filing is a slew of names that are little known to the public, but have achieved a distinction all their own in some circles. There is a Wall Street-Mob goon here, a cocaine dealer there, a Long Island loan shark—all on a lengthy list of names that includes, no doubt, many nice people.

If the regulators decide to peruse these documents—again—they won't have to dig too deep into their file cabinets. The American Fuel registration statement was filed last October. The Mayfair Homes filing, with Longo and Romilda Abramo appearing prominently on page 31, went to the SEC on Jan. 23—nearly two months after Longo was mentioned in *BUSINESS WEEK*.

EMERGENCY LOANS. So far, of course, the Mayfair and American Fuel deals have not generated any revenues for Longo. He is described as a heavy gambler who, according to a reference in one recent court decision, once had to borrow from loan sharks to pay off other loan sharks. But the Mob's Wall Street deals are no gamble. They are a sure thing—particularly when the regulators are nowhere to be seen.

A couple of weeks ago, Longo, Malangone, and other reputed Genovese mobsters were seen paying their respects at the funeral of a Genovese mobster named Peter Romano, who was believed by law enforcement to be a secret power in the Fulton Fish Market. It was a sad event. But the Mob has no reason to shed a tear. The only powers that can truly organize their funeral—on Wall Street, at least—are starting to make noise. But so far, at least, they haven't done a thing.

By Gary Weiss in New York

COMMENTARY

By Greg Burns

BUFFETT SOUNDS BEARISH—BUT HIS PORTFOLIO IS BULLISH

If jawboning about “irrational exuberance” can’t sink the market, the Oracle of Omaha doesn’t stand a chance. Sure, just like Federal Reserve Chairman Alan Greenspan, billionaire Warren E. Buffett is preaching caution: The stock market is “overheated,” and the risk of overpaying is “quite high.” Even top companies are probably overvalued, Buffett warns in the 1996 annual report of his holding company, Berkshire Hathaway Inc.

Just one problem: Buffett shows no signs of heeding his own counsel. If the market is so precarious, why not throw tax consequences to the wind and sell some of Berkshire’s \$28 billion stock portfolio to lock in its steep gains? Instead, Buffett has been a buyer. Last December, Berkshire paid \$1.5 billion in cash and stock for publicly traded FlightSafety International

folio managers typically expand their cash holdings when they run out of opportunities, Buffett held half as much cash at yearend ’96 than he did the year before. That’s consistent with some of his past statements about putting money to work: At the 1994 annual meeting, he told shareholders he considers a growing cash position “an index of failure.” His

forecasting, Buffett should be taken with a ton of salt. Keep in mind, he has made no secret of his disdain for market timers. He has told investors in the past that he never has an opinion on the market at large. And the last time he took a flier, he got it wrong, predicting in 1992 that the market would perform poorly for the rest of the decade. In spite of his

downbeat statement, by the way, he stayed heavily invested in stocks then, as now.

Perhaps Buffett is merely voicing the sentiment of many value-oriented investors who wish for a downturn so they can buy at distressed prices.

LUKEWARM. For Berkshire investors, a natural question arises: Are the company’s shares among those Buffett considers too pricey? Certainly, Berkshire stock seems far from overheated. In the past 12 months, while the broader market soared more than 20%, Berkshire stock is not much higher than where it was early last year (chart).

Part of the reason for its underperformance was a strong gain in 1995, followed by Buffett’s warning in last year’s letter to shareholders that the stock had gotten so far ahead of itself he wouldn’t buy it.

What about this year? Since much of the company’s value stems from stakes in such highfliers as Coca-Cola Co. and Gillette Co., a toppy market would seem

to put Berkshire at risk. Yet in his latest epistle, Buffett sings a happier tune, saying the stock lagged behind its underlying businesses in ’96, and its valuation is “more appropriate” than in 1995. Could be that Berkshire’s a buy, and the market is, too—in spite of Buffett’s protestations.

Burns covers financial markets from Chicago.



In 1992, Buffett predicted that the market would perform poorly for the rest of the decade

Inc. And over the previous five quarters, he tripled his holdings in McDonald’s Corp.—a stock so clearly a barometer of market sentiment that it’s one of the 30 stocks making up the Dow Jones industrial average. As of yearend, he owned 4.3% of McDonald’s, worth about \$1.3 billion.

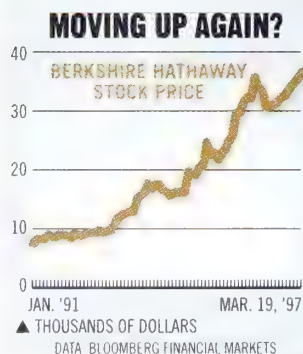
JUICIER BURGER. Indeed, in just the past few weeks, Buffett has had a tempting opportunity to up his stake in McDonald’s. On Mar. 3, three days after Buffett signed his letter complaining about high stock prices, McDonald’s sank to 42¢, its lowest price since last summer. But by Mar. 19, investors taking note of Buffett’s expanded interest in hamburgers had driven the stock up to 47¢.

Buffett’s current position is more offensive than defensive. While port-

bond holdings have soared, but that’s mainly because Berkshire acquired a fixed-income portfolio with the Jan. 2, 1996, acquisition of the 49% of insurer GEICO Corp. that it didn’t already own.

Buffett-watchers expect him to shift much of that bond holding into equities. But even with the recent downdraft in the tech sector, don’t expect Buffett to nibble at tech stocks. For years, he has advised against investing in a sector that he considers too risky. He is, however, on the lookout for a friendly acquisition of up to \$5 billion.

In truth, when it comes to market





FUNDS

A HIDDEN BOMB IN THE STOCK MARKET?

sell-off by overinvested pension funds may be looming

Many on Wall Street are obsessed with the idea that in a market decline, unsophisticated mutual-fund investors will panic, redeem their funds en masse, and turn a correction into a catastrophe. What the Cassandras seem to miss is the potentially destructive behavior by the sophisticated investors who run the nearly \$5 trillion in private- and public-sector pension plans. Federal Reserve statistics indicate—and many pension-fund consultants agree—that pension plans are top-heavy in equities. This suggests that many of the executives and trustees who run these defined-benefit pension plans might dump stocks in a hurry if the market takes an abrupt turn southward. **SKITTISH.** Most large plans, either by policy or by statute, in the case of state and local government funds, impose limits on the portion of assets that can be invested in stocks. That allocation usually falls somewhere in the 60% to 65% range. The latest available Fed data show that the pension funds reached the 63% point at yearend and the stock market is up another 6% since (chart). Most funds are at least five percentage

points over their equity allocation targets," says Tom Pipich, a principal at Buck Consultants Inc. who advises pension plans on investment policy.

Those overextended equity allocations could become a huge short-term liability. "I'm worried about the pension executive who wakes up after a few bad days in the stock market and realizes he has too much in stocks," says Roger M. Kubarych, chief investment officer at Kaufman & Kubarych Advisors LLC in New York. "To protect his job, he has to take a lot of stock off the table in a hurry." Such wholesale dumping could create a vicious cycle in which a wave of selling drags down prices so much that even investors who had planned to sit tight might start unloading as well.

Largely ignored by market forecasters, these big investors could have an impact on a market that is be-

coming increasingly skittish. Long-term interest rates are once again nearly 7%, and many fear the Fed will hike short-term rates at its Mar. 25 meeting. On top of that, the end of the quarter is near, and investors need another strong earnings reporting season to overcome the drag of higher rates. Any hint of bad news on profits is bound to unnerv investors, large and small.

Even in a raging bull market, defined-benefit plans are not supposed to buy every stock in sight. They're supposed to stay within their targets. If market appreciation pushes up the percentage of the plan that's in equities, the plan's managers are supposed to sell the excess and shift the money to an asset class in which the fund is below its allocation, such as bonds. That way, the fund is always taking profits in a fully priced asset and reinvesting in a cheaper one. The purpose of a defined-benefit fund is not to make the most money it can but to make sure that it earns enough to meet present and future obligations.

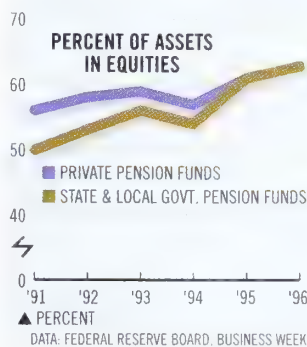
But in the last year or so, many pension overseers have not been that diligent about taking their profits. "Pension boards don't always stick to the discipline," says Ronald D. Peyton, president of Callan Associates Inc., a pension-fund consultant. "It's hard to get them to sell an asset that's performing well and buy something that isn't." A little excess equity does not necessarily touch off alarms, since most funds' guidelines allow an allocation to fluctuate within a few percentage points of a target. But now that the stock market is running into strong headwinds, pension managers may decide to get back in line. "This is the time of year when fiduciary committees sit down for an annual review," says Pipich.

One reason pension-fund officials may have been slow to sell stocks is that they don't find bonds an attractive alternative. Consider the \$85 billion New York Common Retirement Fund, one of the largest such funds in the nation. It has 48% of its assets in U.S. equities,

mainly index funds—about three percentage points higher than its target. Fund managers want to get that back to 45%, but they want the proceeds of those sales to go into foreign stocks and other nontraditional investments. To do that, they have asked for enabling legislation.

Some pension-fund executives contacted by BUSINESS WEEK say

TOP-HEAVY IN STOCKS?



they are within their equity limits. "We expected a downturn some time ago and positioned ourselves to be lighter in stocks," says James Francis, chief economist for the Florida State Board of Administration, which runs the state's \$61.7 billion pension fund. Robert J. Scott, executive director of the \$20 billion Colorado Public Employee Retirement Assn., say his fund is staying put. "We're not going to run for the door," says Scott. "We're looking at the market over the long term." The Colorado fund, which has a 65% statutory limit on equity holdings, is now at 63.5%.

Some private pension funds have

even higher allocations to equities. The \$33.7 billion General Electric Co. pension plan, for instance, has about 70% of its assets in equities, which is permissible under its guidelines. Half of the total assets are in U.S. stocks and the remaining equities are international stocks and "private equity" investments such as venture capital and merchant banking. The fund is not interested in adding to its U.S. stock portfolio. "We would probably put more into the emerging markets and other international equities," says John H. Myers, president of GE Investments. Eric T. Miller, chief investment officer at Don-

aldson, Lufkin & Jenrette Securities Corp., says the GE fund's investment preferences are fairly typical. "We're also hearing a lot more about real estate these days," says Miller, "and there's certainly no trouble raising money for private equity deals."

The funds don't have to dump stock en masse to cause trouble. These funds are so huge that unloading just 1% of their equities could generate more than \$30 billion in sales. In a declining market, that sell order would be a tough one to fill.

By Jeffrey M. Laderman in New York, with bureau reports

COMMENTARY

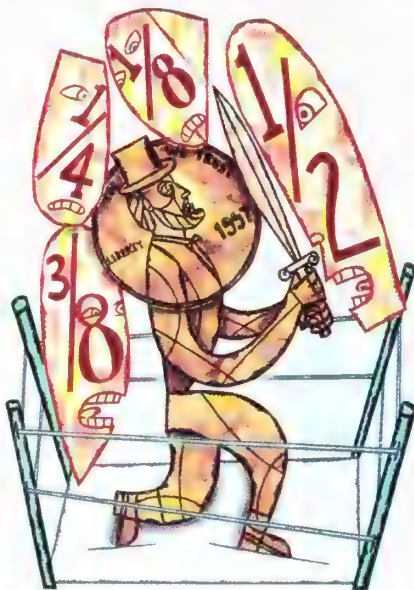
By Dean Foust

WALL STREET'S 200-YEAR-OLD RIP-OFF

Would you buy a car from a dealer who set his prices in \$500 increments—knowing how much harder that would make it to haggle him down? Or would you shop at a grocer who rounds his prices up to the next quarter?

Ridiculous? Yes, but investors are subjected to just such practices every time they buy or sell stocks. That's because market makers are prohibited from trading stocks in less than one-eighth intervals: If a stock trades at 10, traders are guaranteed at least a 1/8 point (or 12.5¢) profit when they sell to new investors—even if true demand would justify a smaller spread. While technology has changed the financial system in many ways, the custom of trading stocks in one-eighth increments is a not-so-quiet remnant of the 1700s, when the Spanish peseta—or "piece of eight"—was the accepted international currency. The current system is "a relic of the days of knee britches and powdered wigs... that prevents market forces from working," gripes Representative Edward J. Markey (D-Mass.). That's why Markey and fellow House member Michael G. Oxley (R-Ohio) have introduced a bill requiring decimal pricing.

SPREAD PINCH. It's high time for Congress to act on Markey and Oxley's bill and force the nation's exchanges to price stocks like all other goods and services—in dollars and cents. The payoff would be enormous: Securities & Exchange Commission member Steven M. H. Wall-



Pricing stocks in decimals might save investors more than \$5 billion a year

man estimates the shift would result in \$5 billion or more in savings for investors at the expense of market makers.

U.S. investors need only look northward to see the benefits of decimal pricing. In the 11 months since the Toronto Stock Exchange made the switch, spreads have been cut by 21%, to an average of 20.5¢, for most stocks trading above \$5, according to a study by Jeffrey M. Bacidore, a visiting lecturer at Indiana Universi-

ty. Many trading experts believe widely held NASDAQ stocks such as Microsoft Corp. and Intel Corp. would suddenly trade at spreads of about a nickel—a savings of \$7.50 for every 100 shares bought or sold.

Predictably, market makers argue that a seismic shift would eat into profits, rendering them unable to fill larger orders and leaving markets less liquid and more volatile. "I have great concern about stocks trading at 17 to 17-and-a-penny," says E. E. "Buzzy" Geduld, president of Herzog, Heine & Geduld Inc. "This could cause the marketplace to dry up."

Geduld's warnings aside, the rampant Wall Street practice of "payment for order flow"—in which dealers pay stockbrokers a kickback of a few pennies for every share routed their way—is a tacit admission that

the current spreads are plenty wide.

Shifting to dollars-and-cents pricing could lead to a dealer shakeout. But that's a small price to pay for lower investor costs. And it might force the survivors to shift toward automated execution systems. Whatever the case, it's time for the stock market, the bastion of capitalism, to be governed by market forces.

Foust follows the stock market from Washington.

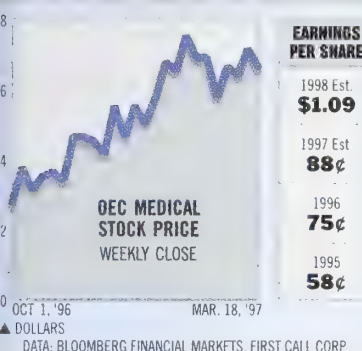
BY GENE G. MARCIAL

IN A BUYER'S X-RAY VISION?

How high is high? In the case of OEC Medical Systems (OXE), some stakeholders think the stock has yet to reach its full potential—although it has risen from 6 a share in early 1995 to more than 16 on Mar. 18. They argue that OEC is undervalued, considering the company's premier position in its field.

One major investor thinks OEC has become too attractive and cheaply priced to remain independent for

MEDICAL IMAGING IS HOT



ing." Management is believed to have rejected as too low a 15-a-share offer when the stock was trading at around 16. Before long, he says, another offer will come along from a major medical-device maker. In a buyout, he figures the stock is worth 30 a share. OEC posted record operating results in the fourth quarter last year and for all of 1996.

OEC makes computer-based medical instruments, primarily X-ray imaging systems. In greatest demand is the Series 9600 cardiac fluoroscopic mobile imager, used to guide the placement of catheters and to perform coronary angiography—to confirm procedural results while a patient is still in the operating room.

The recent surge in minimally invasive cardiac surgery has created a huge demand for mobile X-ray systems. "OEC will be a primary beneficiary—with the two exclusive agreements it has just signed with CardioThoracic Systems and Heartport," says Fred Toney, an analyst at Pacific Growth Equities, a San Francisco investment firm.

CardioThoracic and Heartport are

the leaders in such techniques. OEC will equip the two companies' training sites for surgical bypass worldwide with its imaging system. The company's "momentum in the cardiology-imaging market, solid growth of more than 20% on the top and bottom lines, and strong market share of 50% in the U.S. and 15% internationally make OEC a compelling investment," says Toney. Based solely on fundamentals, he thinks the stock should hit 27 in a year.

THE NEXT MARK IN BURGLAR ALARMS

Will more takeovers spice up the stodgy home-security industry? Investment adviser Charles LaLoggia thinks so. He first tagged ADT, the nation's largest home-protection company, as a potential target in March, 1996, when it was trading at 15 a share. LaLoggia says a "takeover wave" will hit the industry because of Tyco International's white-knight bid of 28 a share for ADT. That has foiled a hostile 22-a-share takeover bid by Western Resources (page 48). What's LaLoggia's take on the next takeover target in the home-alarm business? He thinks one potential target is Protection One (ALRM), which sells and monitors alarm systems for homes and small businesses. LaLoggia, editor of market letter *Special Situation Report*, notes that Protection One, currently trading at 9 a share, recently signed an agreement with PacifiCorp, a large electric utility, giving Protection One the right to market its alarm services to PacifiCorp's 1 million customers.

Is PacifiCorp thinking along the same lines as Western Resources? LaLoggia thinks many utilities are on the lookout for new services they can deliver to their customers in this era of deregulation. "The security monitoring business looks like a natural," he says. Protection One "would be a perfect target for any of those companies," says LaLoggia, who figures that the company is worth 14 to 16 in a buyout.

He notes that other companies that run wire into houses—such as cable TV and phone outfits—may already be thinking along the same lines. He notes that Wayne Huizenga, who heads Republic Industries, also tried to acquire ADT in an effort to get into the \$13 billion security-alarm industry, which has been growing at 20% a year.

A BIOTECH WITH TESTOSTERONE

If you don't believe biotechs are back, take a gander at the sizzle of Bio-Technology General (BTGC): Its stock shot from 5 a share on Apr. 10, 1996, to 17½ on Feb. 20, 1997. Profit-taking nudged it down to 14½ by Mar. 18.

Time to bail out or avoid the stock? Not by a long shot, says one money manager who has been buying each time the stock turns down. And some analysts, whose price targets for Bio-Technology have been pierced, continue to be bullish on the company.

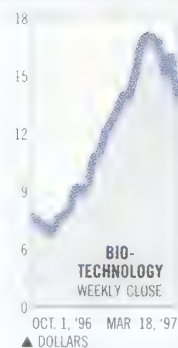
"We are raising our 12-month price objective from 16 to 20," says analyst Paul Woodhouse of Merrill Lynch, in part to accommodate an improvement in earnings. He had a price objective of 12 when the stock was at 7 in November and then raised it to 16 in January when it hit 12.

Bio-Technology is "one of the most exciting earnings and investment stories in the Merrill Lynch drug stock universe," says Woodhouse. The company moved into the black in 1995 when it introduced its first major product, Oxandrin, used for the treatment of involuntary weight loss brought on by cancer, AIDS, or severe trauma. He projects sales of Oxandrin of \$39 million in 1997 and \$60 million next year. The product, he says, will be the company's main growth engine for the next two years. Another product selling well, says Woodhouse, is Bio-Tropin, a hormone for treating growth disorders.

New products include: Androtest-SL, testosterone that is taken orally for treatment of impotence, poor muscle development, and bone loss, already submitted to the Food & Drug Administration for approval; and Oxso-drol, in its third clinical trials, for the prevention of the severe lung ailments that affect 30% of premature babies.

Woodhouse expects Bio-Technology to make 44¢ a share in 1997 and 76¢ in 1998, up from last year's 26¢.

PLENTY OF ZIP



EDITED BY EDWARD C. BAIG

Affinity Travel

Karen Rotella was in a funk. So she headed west—with a bunch of women. “I needed to recharge, to get close to nature,” says the 41-year-old health inspector from Middlebury, Conn. Rather than travel alone (her husband is not the outdoorsy type), Rotella joined a women-only travel group to ski in Yellowstone National Park. It turned out to be one of the best experiences of her life.

“It’s more relaxing with just women,” she says. For seven days, Rotella and four other travelers skied, spotted elk, and chatted about their work, their travels, and their families. “In such a short time, we really bonded.”

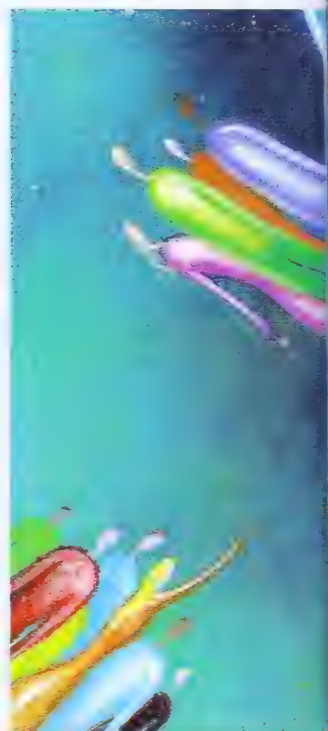
Whether you’re a Southern Baptist or an African American, a volunteer or a senior citizen, you can find an “affinity” group with whom to travel. These aren’t simply arts-and-crafts workshops or another European museum tour for folks who like Toulouse-Lautrec. Instead, you hook up with travelers who share something deeper: the same religion, race, gender, or lifestyle.

The types of trips available are as varied as the affinity groups who take them. Like Rotella, a rugged woman can ski, climb mountains, or shoot the rapids on a Woodswomen (800 279-0555) adventure trip. Wild Women Adventures (800 992-1322) steers females toward more civilized destinations, such as London, dubbed “Ye Olde ‘Shoppe ‘til you Droppe’ Thames

Cruise.” (The group’s idea of roughing it is staying in a hotel without room service.)

Men-only excursions, on the other hand, are harder to find. Most tour operators run trips that welcome both sexes. But there are lots of vacations that draw mostly fellows—even if they don’t target them directly. Esoteric Sports Tours (800 321-8008) puts together four-day weekends that revolve around the Super Bowl, the Masters golf tournament, and other sporting events attended mostly by men. At Leon Harrel’s Old West Adventure (800 362-7095), the chap much like Billy Crystal in the movie *City Slickers*, plays cowboy on a three-day cattle drive. Many Alaska fishing trips, as well as hang-gliding and bungee-jumping adventures, interest men primarily. Males in need of soul-searching can consider a men’s awareness weekend. Christian-based Promise Keepers (800 265-6023) offers two days of prayer, song, and general male bonding at football stadiums around the country.

If you’re over age 50, Elderhostel (617 426-7788) sponsors enrichment classes—History of the America



Vacation in the U.S. or abroad with a group of kindred

History of Whaling—and field trips at some colleges and state parks. A typical domestic trip, runs for one week, costs \$340 (excluding transportation). Active seniors can trek through Ireland, and, and Hawaii with Walking the World (800 340- which organizes year-round, off-the-beaten-path for small groups.

Church and synagogue members have long made pilgrimages together to the Holy Land, of course. But religious groups now have other travel options. Jeton Tours (800 334-2630) offers Bible-study trips to the Bahamas and Alaska, featuring popular

to Australia, Israel, and other destinations with Travel Turtle Tours (800 453-9195). A 13-day trip to Holland, which costs \$2,350, includes five days aboard a Clipper ship. Bare Necessities Tour & Travel (800 743-0405) charters cruises for nudists. Its 1,200 passenger, seven-day, Millennium cruise to the Caribbean, which costs up to \$2,200, is already 50% booked. And African Americans interested in learning about their heritage can, say, retrace the steps of the Underground Railroad.

To find the group that best suits your needs, check out the Specialty Travel Index (\$10 for two biannual issues, 415 455-1643; or visit their Web site, [www.](http://www.specialtytravel.com)

[specialtytravel.com](http://www.specialtytravel.com)), which lists everything from brown-bear watching and ice-climbing adventures to wine-tasting tours and shopping expeditions. The American Society of Travel Agents (703 739-2782) offers a list of travel agents who specialize in singles, religious, and assorted other affinity groups at its Web site (www.astanet.com).

Affinity travel is not for everybody, of course. No matter how like-minded you may be, group travel can be difficult. Just because you're with a

Christian preachers. Catholics can retrace the steps of Francis of Assisi through one of the customized runs run by Regina Tours (800 228-4654). And Jews enjoy a Kosher week at a Club Med resort—complete with rabbi and makeshift synagogue. Once a year, Club Med also hosts an alcohol-free vacation for vacationers who are on the wagon. In addition to the typical Club Med sports activities, travelers attend AA-style meetings. These packages are run by October Vacations (800 762-3738), which also puts together cruises, as well as a rafting trip for more adventurous abstainers.

Indeed, whatever your affinity, you'll find a surprising assortment of travel offerings to suit your needs. Blind, deaf, and wheelchair-bound individuals can travel

a bunch of fellow vegetarians is no guarantee that you'll all get along. But it helps. "You feel you have something in common from the start," says Ann H. Waigand, publisher of *The Educated Traveler* newsletter (\$57 for six bimonthly issues plus annual directories covering special-interest travel and museum-sponsored tours, 800 648-5168). "And that's important, especially when you're traveling with these people for three weeks in China."

What's more, sharing an adventure with kindred spirits might change your life. Karen Rotella's ski trip helped her through a midlife crisis. Soon after she returned, Rotella started a local women's support group. "I couldn't help wondering," she says, "why I had to go 2,000 miles to find camaraderie." *Barbara Hetzer*

who share the same religion, race, gender, or lifestyle.



TEAMWORK

Vacationers, many of them first-time builders, worked side by side with local volunteers

from other cultures—not the typical fare of most prepackaged tours.

An ecumenical, Christian housing organization dedicated to eliminating poverty and homelessness, Habitat operates in more than 50 countries, with 1,300 work sites in the U.S. alone. The purpose of the project I joined—a joint venture between General Motors and Habitat for Humanity—was to start

Affinity Travel

A Volunteer's Mexican Diary

One week building homes for the poor

My first night in Matamoros, Mexico, was a long one. Sleep wasn't an option, thanks to the incessant barking of three pit bulls guarding the taco stand across the street. Leaving the lights on to fend off the fearless *cucarachas* didn't help, either. I looked forward to morning when I could stop obsessing about the size and multitude of Mexican bugs and meet the people who had chosen to spend their vacations in one of Mexico's least scenic and least prosperous areas. I was there as a reporter for less than a week; a short time which had a surprisingly deep impact. Still, I wondered how many people had paid almost \$700 plus air-

fare—not to mention the hours of sweat equity—for a week in a \$13 roach-infested motel room.

As it turns out, quite a few, and for good reason. While I had witnessed poverty before—here in the U.S. and in places such as Brazil and Bosnia—it was always from a distance. But my up-close visit to a work camp organized by Global Village, Habitat for Human-

ity International's mission department (800 HABITAT) was one of the most rewarding—and thought-provoking—vacations ever.

Any trip billed as a work camp is not for delicate travelers. With work gloves, water-purification tablets, and toilet paper high on the list of must-bring items, I knew that this was not going to be a relaxing getaway. But that's exactly the point. No matter if they appeal to yuppie guilt or just plain altruism, volunteer vacations (page 98) give participants a chance to travel and work side-by-side with people

construction on the first of a series of homes to be built in one of the poorest neighborhoods in Matamoros, known as Colonia México. GM, which has three plants in the Matamoros area, donated the cost of the first 50 homes, about \$5,000 each.

COMMUNAL LIVING. Habitat, in conjunction with local community leaders, handled everything else, including selecting which families would receive housing. The qualification process takes into account an applicant's income, the condition of his or her current home and the number of people living in it. Only 6 of the 38 approved families were employed by GM. Those selected must repay Habitat for the cost of the house within 8 to 10 years, interest-free. That money in turn goes into a fund to build neighboring homes.

One of the underlying goals is cooperation. So communal living was part of the deal. Bunking with strangers—if only for a few days—may be a drawback to some, but nothing encourages bonding like a surplus

WORTH IT

Author Capell spent one of her "most memorable and rewarding vacations" in Matamoros, despite rough living conditions



cockroaches and a shortage of basic amenities. My roommates were Barbara Barker, 37, a New Jersey social worker, and Judy Seitzer, 34, an employee of the Milwaukee transportation department. Both had worked on Habitat projects

a dirt road littered with trash, the odd chicken or goat, and what appeared to be an army of the meanest, mangiest dogs I'd ever seen. I learned later that the dogs were strictly for security, since none of the homes had doors, much less locks.

door plumbing and two bedrooms—a significant improvement over the existing structure with a water pump out front and a rotting outhouse in the back. Especially impressive was the fact that many of the local volunteers pitched in

was welcoming. There were no patronizing debates over Mexico's drug problem or the plight of the country's poor. Instead with Felix's translation, we chatted about the importance of national volunteerism in Mexico, where education is free, conditions at the local factories, and what the children study in school. Thanks to the few Spanish phrases I learned growing up watching *Sesame Street* and an inability to roll my r's, I kept the two younger brothers, Luis and Alberto, giggling.

Our first task was to lay the foundation. Living in Manhattan, I had little experience digging a garden, much less the foundation of a home, but I quickly learned sweat—not skill—was the prime requirement. Tools were a precious commodity. We took turns using a pickaxe, two shovels, and a sledgehammer. Forget the gym, there's nothing like swinging a sledge to relieve stress.

The work was hard and the progress gradual. Using tools, rotting slats of wood, and our bare hands, we dug down about three to four feet. Working in close proximity with novice builders wielding sharp objects, it was amazing the only injury was the occasional, painful bite of fire ants. By the time the week was over, only part of the home would be complete; local residents would finish the rest.

Shoveling and pickaxing our way through sewage from the nearby outhouse, we resorted to humor amid the stench. The running joke was that this was better—and cheaper—than any spa vacation. Barbara, the most creative among us, proposed bottling the clay-like soil and

PICS FROM THE TRIP

Alberto and Luis Rodríguez (below) will move into the first of 50 houses to be built. Volunteers (left) enjoy a communal meal. Progress was slow, and the work exhausting, as Gary Sestito (in wheelbarrow) attests



the U.S. Almost immediately, we were kicking around like old ends.

Leading our group were Felix Lozano, the Habitat volunteer coordinator for Mexico, and Paul Warger, 44, a counselor with a homeless ministry in Wichita. Warger was well-versed in housing projects like this one after completing a three-year stint with Habitat in Nogales, Mexico. Gary Sestito, 43-year-old Dallas inspector, had worked with Habitat in Guatemala and Texas. Curt Roberts, a 57-year-old engineer with a morning and his 27-year-old wife, Cathy, an international sales manager at Transonic Systems, left Ithaca, N.Y., for their second Habitat vacation in Mexico. Besides myself, the only other first-time volunteer was 64-year-old retiree John Pendergrass from Birmingham, Ala.

Camp Matamoros, Day 1: I crammed into a van and arrived at the work site via



Any jokes I may have made about our temporary accommodations were silenced when I saw the permanent living conditions of the people with whom we would work. A fortunate few could call one-room wooden shacks home. But the majority resided in windowless cardboard shanties, with old clothing and newspaper filling gaping holes in the walls and roofs.

A crowd of neighbors had arrived to help build the house, which will have in-

even though they did not qualify for new housing themselves. The workday began with a groundbreaking ceremony. We met the future occupants, Alejandra Villegas Rodríguez, 39, and her three sons aged 13, 8, and 7. Rodríguez, who currently lives with her sons in a one-room shack, assembles radio parts at Deltrónicos de Matamoros, a GM subsidiary. Most of us wondered whether our temporary help might be resented, but Barbara summed it up best: "I ask people for help every day and I don't know where I'd be without it."

Although few of us spoke Spanish, language wasn't a barrier because everyone





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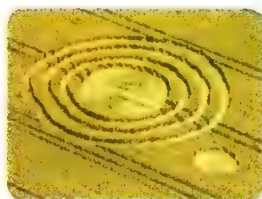
THE GREAT INVISIBLE GUIDING HAND OF CAPITALISM HAS JUST **SMACKED** THE INTERNET UPSIDE THE HEAD ► NOW WHAT?

NO MORE HYPE. No more jargon. No more paradigm shifts, okay? Everybody agrees the Web has the potential to be a monumental economic force. But from a capitalist point of view, the Internet has had about as much impact as the two-dollar bill. Why? For one thing, security is lousy. For another, building interactive websites that are linked to corporate databases (which is to say, useful information) takes forever. For still another, keeping those websites updated with timely information costs a fortune.

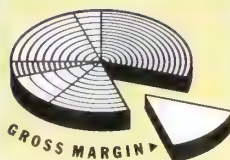
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Personal Business

selling it to tony American resorts as the "Matamoros mud mask."

But the highlight of the trip was the time spent with the people who lived there. Viewing poverty through a tour bus window is one thing, but meeting the people who actually live there is entirely different. We were invited into the homes of local volunteers for mid-day meals. While preparing tortillas in her kitchen, Blanca Sandoval, 43, a 12 year-resident of the area, said she

was one of the few people who had bought her three-room home pre-made. More recent residents weren't as fortunate, she said, since wages in many of the local factories had been steadily declining. Most of the neighborhood's 5,000 residents work at nearby plants, where the average wage ranges from 160 to 300 pesos, or \$21 to \$48, per week.

At day's end, we were back to the motel, which now seemed luxurious in comparison, to shower and

regroup for a communal dinner always preceded by a brief prayer. Following dinner, we'd gather to recap the day's events. Approximately \$350 of the total \$685 cost (plus transportation) covers room, meals, and mandatory travelers insurance. The remaining \$335 goes directly to the Habitat affiliate office in the country where you work to fund the building of other houses in the region.

I saw a part of Mexico that few tour-package visi-

tors ever encounter, met interesting people, and learned Homebuilding 101 in the process. However, I left with mixed feelings: Doing good doesn't always feel good, especially when so much needs to be done. But the alternative is to do nothing. Looking back at my time in Matamoros, I promised myself that I would never complain again about living in my Manhattan studio apartment and that this would be the first of many volunteer vacations. *Kerry Capel*



SERIOUS FUN

Volunteer trips can sometimes run to the exotic. Here, a CEDAM worker surveys a coral reef.

interests. Environmentally conscious and a scuba-diving buff, Kathleen Becker spent a week surveying the coral reefs off Andros Island in the Bahamas with the

Conservation Education Diving Archeology Museums (CEDAM, 914 271-5365). Since working on Goldman Sachs' syndicate desk left the 52-year-old little time to volunteer, the trip proved to be the perfect solution.

There are almost 1,000 organizations worldwide that welcome volunteers. Some programs pay room, board, and travel expenses, while others ask the volunteer to cover all costs. The time commitment also varies widely, from a week to several months.

For professionals with special expertise—technical, financial, or medical—there are numerous opportunities. The Financial Services Corps (212 692-1200) sends qualified executives to help advise public- or private-sector agencies, primarily in Central and Eastern Europe

and the former Soviet Union on capital-markets development and central and commercial banking.

Retired businesspeople may want to check out the International Executive Service Corps (203 967-6000), which sends volunteers to work as consultants in developing countries. And those in the health profession can call Health Volunteers Overseas (202 296-0928).

BIRD WATCHING. Yet many groups require no special skills. Global Volunteers (800 487-1074) takes interested workers to developing regions of Europe to help on projects ranging from natural-resource development to teaching English. Caribbean Volunteer Expeditions (607 962-7846), teams up with local museums and national parks on historic-preservation projects. Volunteers—who don't have to be architects—help measure drawings and document building surveys.

Tom Davis, one of the founders of Silicon Graphics, recently took an Earthwatch trip to Ecuador where he helped scientists trace the migration patterns of indigenous birds. The work was challenging—he had to haul water down steep hills via mule. But, he says, "I like it when I'm totally exhausted at the end of the day." Whoever thought work could be so much fun? *Kerry Capel*

Affinity Travel

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Have you lost it? Hardly. Whether it's helping scientists learn about global warming in the Amazon rain forest, teaching English to kids in Central America, or advising financial institutions

in Russia—participants say such "volunteer vacations" are surprisingly reenergizing. "It's very effective for corporate burnout, since you gain a sense of accomplishment apart from the workplace," says Blue Magruder, director of public affairs for Earthwatch, an international scientific volunteer group in Watertown, Mass. (800 776-0188). Plus, a portion of the costs may be tax-deductible.

Many travelers can combine service with personal

Multiple sclerosis has not stopped Mary Zee from fishing for piranhas in the Amazon or riding an elephant in the Himalayas. "Being disabled just means you have to plan ahead," says the 51-year-old Media (Pa.) travel writer.

With help from a handful of tour operators and travel agents, handicapped people can explore parts of the world that once seemed out of reach. The Society for the Advancement of Travel for the Handicapped, an advocacy group in New York, estimates there are 36 million such travelers in the U.S. Yet few in the industry court disabled customers, says Carol Randall of Access-Able Travel Source in Denver.

Indeed, while facilities have generally improved since passage of the Americans with Disabilities Act in 1990, not every hotel, airline, or restaurant is up to snuff. And, of course, standards vary greatly overseas.

MAFUS. Two Massachusetts agencies, AccessAbility Travel in Cambridge and Access First Travel in Malden, send representatives to inspect destinations around the world so they can help disabled travelers meet their needs—whether it's wheelchair-accessible cruise ships or guides who understand sign language. Their knowledge of the vehicles, hotels, and even the terrain at various destinations can prevent unforeseen snafus. Just because a hotel has a handicapped symbol in a travel guide doesn't mean it's fully wheelchair accessible. "There could be three stairs to get to the lobby and no wheelchair showers," says Joe Regan, owner of Access First.

Although many disabled travelers complain of limited access on mainstream



Affinity Travel

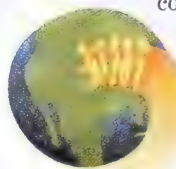
Barriers Drop For the Disabled

Fewer places in the world are out of reach

packaged tours, Princess Cruise Line and Royal Caribbean Cruises are particularly good. These lines have as many as 30 wheelchair accessible cabins on larger ships. (The rates are the same as for standard cabins.) Furthermore, they allow guide dogs, and make flashing lights available to signal incoming calls and visitors at the door. But once travelers arrive in ports of call, they're on their own. Lift vans are not provided for shore trips, so tourists must make and pay for their own arrangements.

Accessible Journeys in Ridley Park, Pa., and Flying Wheels in

Owatonna, Minn., are among the outfits that put together tours to such faraway places as Australia, Kenya, Norway, and Switzerland—all aimed at physically-impaired people and their companions. They might arrange for porters to carry clients up the steps at the Taj Mahal or provide canvas slings to lower disabled travelers into



Charting Your Course

READ Fodor's Great American Vacations For Travelers With Disabilities \$19.50, Fodor's Travel Publications Inc.

CALL Society for the Advancement of Travel for the Handicapped, 347 Fifth Ave., Suite 610, New York, NY 10016, 212 447-7284

CONSULT Access Tours, (800 929-4811), Accessible Journeys (800 846-4537), AccessAbility Travel (800 610-5640), Flying Wheels, (800 535-6790), and Access First Travel (800 557-2047) are tour agencies and travel agents that cater to disabled travelers

BACK TO NATURE

One nonprofit group plans Western trips for handicapped people—to such spots as Yellowstone National Park

submarines in the Caribbean.

For travel closer to home, Access Tours in Jackson, Wyo., is a nonprofit organization that plans nature-oriented trips for the disabled in the Western states. Ten-day vacations costing \$1,500 to \$1,700 in

Yellowstone National Park and the Grand Canyon are typical offerings.

WORK-STUDY. Disabled people who are interested in foreign exchange programs can call Mobility International USA in Eugene, Ore. (541 343-1284). This nonprofit group serves as a clearinghouse for information on work-study opportunities in other countries. The organization also sponsors trips such as a three-week sojourn to Mexico, where travelers can meet with disability activists while soaking up local culture. As part of a \$40 membership fee, Mobility International will share information from a database on how accommodating certain destinations are throughout the world.

Whether a disabled traveler is seeking adventure, learning, or rest and relaxation, it can be achieved. Zee believes some people with disabilities stay home out of fear that they won't be accommodated. "It's a shame," she says. Having a physical impairment these days doesn't mean having to miss the boat. *Kate Murphy*

The 1997 Business Week Presidents Forum

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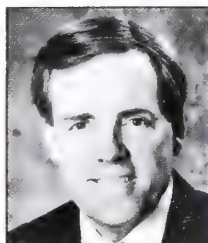
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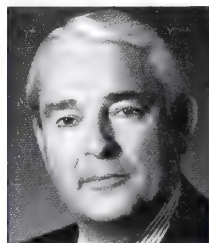
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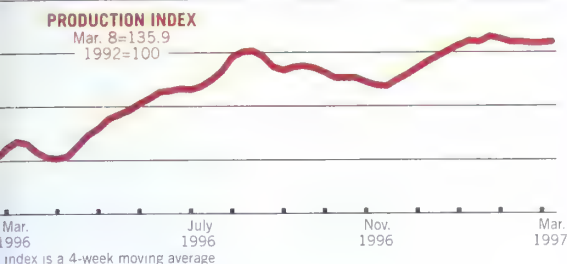
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PRODUCTION INDEX

Change from last week: 0.1%
Change from last year: 7.3%



production index edged slightly higher during the week ended Mar. 8, as index continues to show little movement in the first quarter after its runup in the fourth. Before calculation of the four-week moving average, the index rose to 136.1, from 135.4. On a seasonally adjusted basis, increases in output of lumber, steel, electric power, and crude-oil refining offset drops in truck and coal production as well as in rail-freight traffic.

Source: Bureau of Economic Analysis. Latest 1997 by The McGraw-Hill Companies.

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STOCK PRICES (3/14) S&P 500	793.17	804.97	24.0
CORPORATE BOND YIELD, Aaa (3/14)	7.42%	7.47%	-1.3
INDUSTRIAL MATERIALS PRICES (3/14)	108.3	108.2	-0.3
BUSINESS FAILURES (3/7)	NA	NA	NA
REAL ESTATE LOANS (3/5) billions	NA	NA	NA
MONEY SUPPLY, M2 (3/3) billions	\$3,871.4	\$3,869.3r	4.5
REAL CLAIMS, UNEMPLOYMENT (3/8) thous.	307	312	-12.8

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
FEDERAL FUNDS (3/18)	5.42%	5.21%	5.20%
COMMERCIAL PAPER (3/19) 3-month	5.53	5.46	5.36
CERTIFICATES OF DEPOSIT (3/19) 3-month	5.52	5.44	5.33
FIXED MORTGAGE (3/14) 30-year	7.98	7.97	8.06
ADJUSTABLE MORTGAGE (3/14) one-year	5.86	5.78	5.82
RENTAL RATE (3/14)	8.25	8.25	8.25

Sources: Federal Reserve, HSH Associates, Bloomberg Financial Markets

Yearly data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

MEETING

Monday, Mar. 25 ▶ The Federal Open Market Committee of the Federal Reserve will meet to set monetary policy for the next six weeks. A slight majority of economists surveyed by MMS International, of The McGraw-Hill Companies, thinks policymakers will keep short-term interest rates unchanged, leaving the federal funds rate at 5.25%. However, almost all economists surveyed by MMS expect a rate hike by the May 20 meeting, as solid economic growth, tight labor markets, and recent cost pressures raise inflation prospects. The Fed has not moved rates since January, 1996, when it cut the fed funds rate a quarter point.

EXISTING HOME SALES

Tuesday, Mar. 25, 10 a.m. EST ▶ Existing home sales probably increased slightly, to an annual rate of 3.95 million in February, after rising 2.1%, to 3.94 million, in January. Although bond yields are rising, mortgage rates have not increased enough to choke off housing demand.

CONSUMER CONFIDENCE

Tuesday, Mar. 25, 10 a.m. EST ▶ The Conference Board's index of consumer sentiment probably fell only a bit in March, to a reading of 118, from 118.4 in February. The big surprise in the February data came in the present-situation index, which rose from 141.2 to 143.4, a 27-year high.

DURABLE GOODS ORDERS

Wednesday, Mar. 26, 8:30 a.m. EST ▶ The MMS survey expects that new orders taken by durable-goods manufacturers likely dropped 0.3% in February, following a 4% increase in January. The backlog of unfilled orders was probably unchanged in February after rising 1%.

NEW HOME SALES

Friday, Mar. 28, 10 a.m. EST ▶ New single-family homes probably sold at an annual rate of 860,000 in February. The housing market in January surprised almost everyone: New home sales jumped 8.6%, to an 870,000 pace, so some fallback is expected in February.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (3/15) thous. of net tons	2,102	2,138#	2.1
AUTOS (3/15) units	123,233	131,876r#	56.2
TRUCKS (3/15) units	140,185	139,822r#	40.4
ELECTRIC POWER (3/15) millions of kilowatt-hrs.	59,387	60,388#	0.1
CRUDE-OIL REFINING (3/15) thous. of bbl./day	13,715	13,578#	0.3
COAL (3/8) thous. of net tons	20,443#	21,245	-3.2
LUMBER (3/8) millions of ft.	510.6#	482.1	13.9
RAIL FREIGHT (3/8) billions of ton-miles	26.9#	27.6	1.5

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPAl, SFPAl, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (3/19) \$/troy oz.	349.100	351.400	-11.6
STEEL SCRAP (3/14) #1 heavy, \$/ton	136.50	139.50	-1.8
COPPER (3/14) ¢/lb.	117.0	118.5	-5.0
ALUMINUM (3/14) ¢/lb.	80.5	81.5	5.9
COTTON (3/15) strict low middling 1-1/16 in., ¢/lb.	72.74	71.65	-9.8
OIL (3/18) \$/bbl.	21.77	19.75	-10.6
CRB FOODSTUFFS (3/18) 1967=100	243.36	247.61	4.5
CRB RAW INDUSTRIALS (3/18) 1967=100	339.92	341.60	3.0

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (3/19)	122.72	122.43	106.77
GERMAN MARK (3/19)	1.68	1.70	1.48
BRITISH POUND (3/19)	1.60	1.60	1.53
FRENCH FRANC (3/19)	5.67	5.73	5.07
ITALIAN LIRA (3/19)	1687.8	1693.0	1566.2
CANADIAN DOLLAR (3/19)	1.38	1.36	1.32
MEXICAN PESO (3/19)	7.925	7.975	7.550
TRADE-WEIGHTED DOLLAR INDEX (3/19)	104.8	104.8	96.44

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar via J.P. Morgan

This Week, Online

Business Week presents frequent live conferences and chats on America Online—your opportunity to ask questions about features from the magazine.

Sunday

Is a slowdown in high tech destined to end the U.S. economy's long expansion? Talk about the current issue's provocative Cover Story with Michael J. Mandel, BW's economics editor. **Mar. 23 9 p.m. EST in the Globe**

Monday

Mark Taylor, editor of *Fraud Watch*, tells how to prevent your business from becoming a victim. **Mar. 24 8 p.m. EST in the BW Enterprise Chat Room**

Wednesday

The global MBA: Two American students at IMD in Lausanne, Switzerland, answer your questions about studying there. **Mar. 26 5 p.m. EST in the BW Online Chat Room**

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

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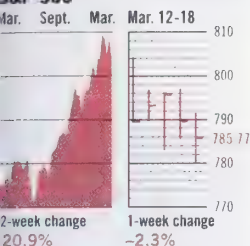
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Investment Figures of the Week

STOCKS

S&P 500

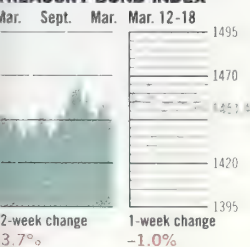


COMMENTARY

Inflation fears roiled the markets. A larger-than-expected gain in retail sales sent the Dow plunging 160 points early in the week—the index's largest drop in almost eight months. Meanwhile, the prospect of a rate hike sent the 30-year Treasury bond yield up 7 basis points, to 6.95%. A few days later, an uptick in the consumer price index and weekly average earnings sent the Dow down again, with technology and bank stocks pacing the decline. The tech-heavy S&P 500 Composite lost 4.2% for the week.

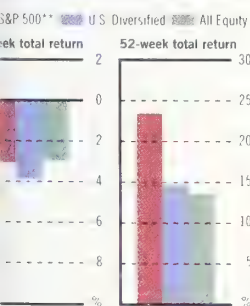
INTEREST RATES

TREASURY BOND INDEX



Data: Bloomberg Financial Markets

MUTUAL FUNDS



Data: Morningstar, Inc.

U.S. MARKETS	Latest	% change Week	% change Year
Dow Jones Industrials	6877.7	-2.3	21.6
NASDAQ Combined Composite	1249.3	-4.2	12.3
S&P MidCap 400	258.9	-2.7	11.7
S&P SmallCap 600	141.1	-4.0	11.6
S&P SuperComposite 1500	168.1	-2.4	19.3

SECTORS	Latest	% change Week	% change Year
Bloomberg Information Age	229.8	-3.1	12.9
S&P Financials	90.8	-4.6	37.6
S&P Utilities	192.9	-0.7	0.5
PSE Technology	241.3	-5.9	14.4

FOREIGN MARKETS	Latest	% change Week	% change Year
London (FT-SE 100)	4332.2	-2.0	17.3
Frankfurt (DAX)	3315.9	-2.9	33.0
Tokyo (NIKKEI 225)	18,493.7	1.7	-9.5
Hong Kong (Hang Seng)	12,651.4	-3.6	16.3
Toronto (TSE 300)	6089.0	-2.7	22.6
Mexico City (IPC)	3867.2	2.9	28.7

FUNDAMENTALS	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.86%	1.81%	2.16%
S&P 500 P/E Ratio (Last 12 mos.)	20.8	21.4	19.0
S&P 500 P/E Ratio (Next 12 mos.)*	16.6	17.1	NA
First Call Earnings Revision*	-1.08%	-0.93%	NA

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day average	715.1	712.0	Positive
Stocks above 200-day average	67.0%	72.0%	Neutral
Options: Put/call ratio	0.67	0.62	Neutral
Insiders: Vickers Sell/buy ratio	1.79	1.78	Positive

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS	Last month%	Last 12 months%
Genl. Merchandise Chains	15.4	Shoes 69.6
Trucking	14.9	Oil & Gas Drilling 67.1
Specialty Retailers	10.7	Semiconductors 64.1
Specialty Appr. Retailers	9.7	Savings & Loans 62.6
Department Stores	6.7	Invest. Banking/Brkrge. 48.6

WORST-PERFORMING GROUPS	Last month%	Last 12 months%
Communications Equip.	-18.5	Machine Tools -26.6
Engineering & Constr.	-11.2	Engineering & Constr. -21.7
Invest. Banking/Brkrge.	-10.9	Broadcasting -17.4
Semiconductors	-10.7	Gold Mining -17.1
Computer Systems	-9.6	Steel -14.6

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness	Price	1-month change
IBM	139 3/8	-4 1/4
Texas Instrument	80	-3 1/2
General Electric	103	-4 1/2
Procter & Gamble	124 1/4	-2 7/8
Exxon	101 1/4	-2
Teva Pharmaceutical-ADR	53 15/16	-6 3/32
Decline ahead? Stocks with most significant selling on price strength	Price	1-month change
Microsoft	99 3/8	2 1/8
Amgen	60	5/8
Republic Industries	34 1/4	1/4
C-Cube Microsystems	26 1/8	7/8
Monsanto	41 3/8	4
L.M. Ericsson-ADR	33 3/4	1 1/4

KEY RATES	Latest week	Week ago	Year ago
MONEY MARKET FUNDS	4.96	4.95	4.87
90-DAY TREASURY BILLS	5.29	5.21	5.19
6-MONTH BANK CDS	5.04	5.03	4.81
1-YEAR TREASURY BILLS	5.76	5.71	5.47
10-YEAR TREASURY NOTES	6.73	6.60	6.41
30-YEAR TREASURY BONDS	6.98	6.87	6.70
LONG-TERM AA INDUSTRIALS	7.44	7.38	7.29
LONG-TERM BBB INDUSTRIALS	7.80	7.71	7.71
LONG-TERM AA TELEPHONES	7.64	7.55	7.63

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	Last week	30-yr. bond Latest week	Last week
GENERAL OBLIGATIONS	4.94%	4.89%	5.54%	5.49%
PERCENT OF TREASURIES	73.33	74.03	79.34	79.79
TAXABLE EQUIVALENT	7.16	7.09	8.03	7.96
INSURED REVENUE BONDS	5.07	5.00	5.79	5.72
PERCENT OF TREASURIES	75.26	75.70	82.92	83.13
TAXABLE EQUIVALENT	7.35	7.25	8.39	8.29

EQUITY FUNDS

Leaders	Laggards
Four-week total return %	Four-week total return %
American Heritage 23.0	Amerindo Technology D -23.1
Tocqueville Intl. Value 6.9	Calvert Strat. Growth A -20.6
Fidelity Sel. Retailing 6.8	Van Wagoner Post-Venture -17.7
Goldman Sachs Sm. Cap A 5.3	Am. Cent.-20th C. Gifttrust -17.0
United Svcs. China Reg. Op. 5.2	Am. Cent.-20th C. Vista -16.0
Leaders	Laggards
52-week total return %	52-week total return %
Vontobel Eastern Euro. Eq. 58.4	Steadman Technology Grth. -40.5
Morgan Stan. Inst. Lat. Am. A 55.6	United Svcs. Gold Shares -36.6
State St. Res. Glob. Res. A 54.6	Matthews Korea -33.1
Morgan Stanley Latin Am. A 54.3	DFA Japanese Small Co. -33.1
Delaware Pooled Real Estate 48.6	Fidelity Japan Small Co. -31.9

EQUITY FUND CATEGORIES

Leaders	Laggards
Four-week total return %	Four-week total return %
Real Estate 1.7	Technology -10.2
Europe 0.4	Small-cap Growth -8.4
Unaligned -0.3	Mid-cap Growth -6.4
Precious Metals -0.3	Communications -5.6
Foreign -0.8	Large-cap Growth -4.9
Leaders	Laggards
52-week total return %	52-week total return %
Real Estate 36.0	Japan -15.5
Latin America 35.8	Precious Metals -10.2
Financial 33.2	Diversified Pacific/Asia 0.5
Europe 21.7	Small-cap Growth 0.9
Natural Resources 19.6	Communications 3.1

Data as of market close Wednesday, Mar. 19, 1997, unless otherwise indicated. Industry figures include S&P 500 companies only. Fundamentals, technical indicators, Bloomberg money

flow analysis, and mutual fund returns are as of Mar. 18. For a more detailed explanation, write to us or E-mail figures@businessweek.com. NA=Not available. **Vanguard Index 500 Fund

IT'S A WHOLE NEW BALL GAME, MR. GREENSPAN

A new business cycle is shaping the U.S. economy. Wonder why inflation is so low after six years of expansion? Can't reconcile annual growth of over 3% with falling producer prices? Know how to connect low 5% unemployment and slow-growing unit labor costs? These mysteries can be explained largely by the emergence of a different kind of cycle, one dominated by information technology. The Federal Reserve should take note. Policy actions based on traditional analyses of the economy may now have unintended consequences. Viewed through this new analytical lens, the economy may be a lot more fragile than previously believed. A mistake in over-tightening might plunge it into an unanticipated recession.

The business cycle changed under our noses. Suddenly computers, software, and communications became the engine of expansion, replacing autos and housing. In the past three years, the tech sector contributed 28% of the growth in GDP, vs. 4% for cars and 14% for housing (page 58).

There are two major implications. First, there's less of an inflationary threat than under previous cycles. A deflationary boom characterizes the high-tech sector, with falling prices generating higher sales and profits. Rising wages, in particular, have a far less inflationary impact in this cycle. The biggest wage gains in the economy are in software and computers—precisely where prices are falling. Alan Greenspan has suggested low wage inflation may be temporary, as once-anxious workers gain confidence in tight labor markets and demand more money. Maybe, but as the tech sector expands, rising incomes matched by higher productivity will not lead to more inflation—just a better standard of living.

In the short term, however, there is danger. The business cycle is clearly not dead, just changed. In fact, a cycle dominated by high technology can be more volatile than the one based on traditional industries. Past high-tech expansions such as the building of the railroads in the late 19th century led to three decades of strong growth. But there were two financial panics followed by serious recessions along the way.

It can happen again, and soon. There is some evidence that the current cycle may already be peaking, and a high-tech slowdown may be under way. Consumer spending on computers is rising at its lowest rate since 1992. Unfilled orders for information technology equipment are falling. Semiconductor sales are down. Technology stocks have turned weak. Beneath the strong macroeconomic numbers, the high-tech driver of the new business cycle appears tired.

All the more reason for caution by the Fed. Relying on traditional business cycle measures, such as housing starts and retail sales, may lead to false impressions of strength. What is needed is a new series of measurements that track the high-tech business cycle as well as the traditional economy.

It may be that current weakness in high technology is merely temporary. Perhaps in the coming months, the global economy will pick up the slack in the high-tech sector, or the decline in domestic demand will turn out to be no more than a seasonal blip. But if the high-tech business cycle is agitating rapidly underneath the current gloss of positive economic numbers, then the Fed had better be cautious in its actions. Interest-rate hikes big enough to puncture a "ballooning" stock market just might deflate an entire economy.

THE CORROSIVE POWER OF MONEY POLITICS

Corporate America has it half right. a new BUSINESS WEEK poll shows that a CEO backlash is building up against soft-money campaign contributions. Shaken down by both Republicans and Democrats in the 1996 election for over 200 million soft dollars—triple the take from 1992—chief executives are starting to think about just saying no. Some already have.

That's all to the good—but not nearly good enough. CEOs complain that politicians control the unrestricted funds and use them for all kinds of purposes and candidates. Execs favor more direct giving. They want to raise the \$1,000 limit on individual contributions and retain the \$5,000 limit on corporate political action committee donations, both of which go directly to candidates. That way, top executives get to target the money and control its impact.

In a nutshell, CEOs want more bang for the buck. But they still see nothing wrong with buying access to and influencing politicians. There's the rub. Public cynicism about the political process is soaring. Fewer and fewer people bother to vote be-

cause they believe they cannot compete against powerful special interests.

The danger is that the U.S., through the campaign finance process, is slowly moving down the slippery slope toward Third World political corruption. As it nags China and other nations to follow the rule of law and build transparency in their economic systems, Washington is shifting to a kind of political system that has besmirched Italy, Korea, and Japan for decades. Money politics is bad not only for democracy but for economic growth as well. When contributions—not competition—rule, the efficiency of market capitalism suffers.

As long as government regulates and taxes, corporations and private citizens have a right to be heard. But the notion that donations legitimately buy that right is corrosive. The campaign finance issue is not one of efficiency but of equity and fairness. The public already despises its political leaders because they don't trust them to do the right thing for the commonweal. It is just a short step to disliking corporate executives who bribe politicians in exchange for access and favors.



AFTER IDENTIFYING
WHAT THIS WAS,
JEEP ENGINEERS
MASTERED IT.

INTRODUCING THE NEW



Obviously our engineers spend most of their time off-road. However, all that off-road expertise makes handling the hard, smooth stuff, well, easy. The latest example of all that engineering expertise—the Jeep® Grand Cherokee TSi.

What you'll notice first about the TSi are the aggressive 16-inch alloy wheels fitted with high-

performance Goodyear® Eagle LS tires, a setup usually reserved for those autobahn cruisers.

Step inside and you'll find perforated leather-faced seats, a 10-way power driver's seat, and controls located right on the steering wheel.

When you eventually tire of all that civilized driving, take the TSi off-road. Remember, G

BusinessWeek

APRIL 7, 1997

A PUBLICATION OF THE MCGRAW-HILL COMPANIES

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TOYOTA'S CRUSADE

President Hiroshi Okuda
is shaking up the company
for one reason: He plans to
dominate, really dominate,
the world auto market



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Wanna play a game?
How did Nintendo launch the first
64-bit video game system...



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AS/400® Advanced Series 64-bit technology

helped Nintendo with one
of the most successful launches
in video game history.

Nintendo of America Inc. (Nintendo of America) is a leading manufacturer of video game consoles and accessories. In 1996, Nintendo of America Inc. upgraded its AS/400 system to the AS/400 Advanced Series.

This upgrade provided the power and performance needed to support the launch of the Nintendo 64 console. Nintendo of America Inc. upgraded its AS/400 system to the AS/400 Advanced Series. The AS/400 Advanced Series provides the power and performance needed to support the launch of the Nintendo 64 console. The AS/400 Advanced Series provides the power and performance needed to support the launch of the Nintendo 64 console. The AS/400 Advanced Series provides the power and performance needed to support the launch of the Nintendo 64 console.

Howard Ringo, VP of Information Services for Nintendo of America, says,

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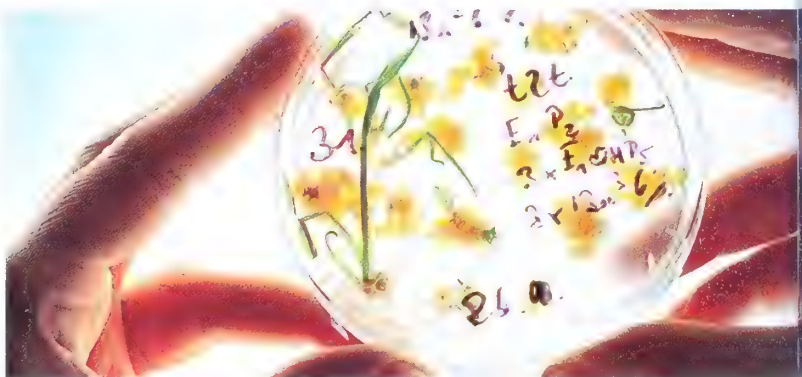
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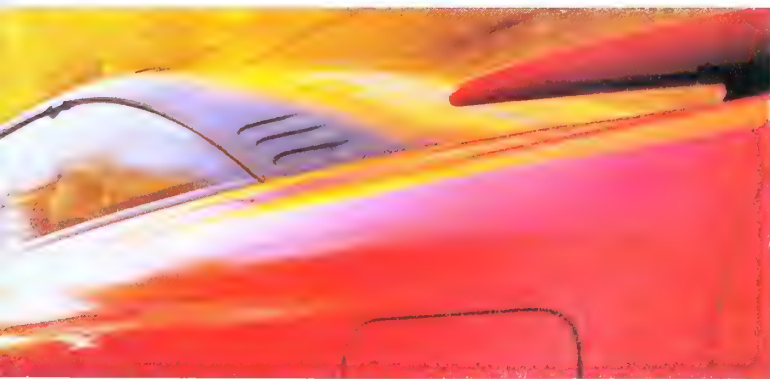


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BusinessWeek

APRIL 7, 1997



TOYOTA'S CRUSADE
Blunt-speaking, high-energy Hiroshi Okuda is on a mission: To make better cars faster, at less cost, for more people

page 104

Cover Story

104 TOYOTA'S CRUSADE

Under President Hiroshi Okuda, the company is retooling for a \$16 billion global expansion—the auto industry's most ambitious ever—in an all-out bid to turn Toyota into the world's premier carmaker. New models, a weak yen, and an ad blitz could make it happen

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China won't get into the WTO fast

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Congress and Big Tobacco need to deal
Hit the gas, Detroit. Japan is back

BUSINESS WEEK ONLINE: Internet: www.businessweek.com America Online: Keyword: BW

Up Front

EDITED BY LARRY LIGHT



LIMBAUGH: Pricier

WAYY-AM in Eau Claire, Wis., is pulling Limbaugh on June 13 when the fees go from \$5,000 yearly to \$35,000. Says General Manager Marty Green, whose station has carried Limbaugh since 1990: "We feel betrayed. We spent thousands of dollars on TV and billboards to promote Rush."

Limbaugh, whose show has aired since 1988, used to provide it for free, earning money from commercial slots he sold. Four years ago, he also began asking for the fees, a practice found only among such heavies as Don Imus and Howard Stern. Limbaugh's people say their research shows many stations are charged too little. If stations can show how the research—based on a station's demographics and ratings—is wrong, says EFM partner Stuart Krane, "we'll back right up." Rush won't comment. Roy Furchgott

BROADCAST NEWS

RUSH FACES A REBELLION

RUSH LIMBAUGH, BELOVED by his right-leaning "ditto-heads," is losing the affections of some of the 660 radio stations that carry his show. That's because his company, EFM Media, has jacked up the fees the stations pay.

He will lose some 40 stations, says media consultant Michael Harrison, who estimates that EFM pocketed up to \$25 million in fees in 1996. Some station execs predict several dozen more exits as annual contracts come up.

THE LIST CORPORATE IDENTITY

WHAT ARE THE BEST BRANDS?

Ford's profit margins may be slumping, but to consumers, Ford comes out as the best U.S. brand. In a sur-

Ford

vey asking for spontaneous replies, the public gave some names that aren't even strictly brands. For example: General Motors (No. 2), which owns brands. However, the poll confirms the tenet that a strong corporate identity helps a brand.

	1997	1996	1995
1. FORD	3	2	
2. GENERAL MOTORS	4	4	
3. SONY	1	3	
4. PROCTER & GAMBLE	5	8	
5. GENERAL ELECTRIC	2	1	
6. CHEVROLET	6	8	
7. COCA-COLA	8	23	
8. KELLOGG	25	7	
9. CAMPBELL SOUP	19	21	
10. PEPSI-COLA, JOHNSON & JOHNSON, AT&T			

From a telephone poll of 1,005 adults
DATA LOUIS HARRIS & ASSOCIATES INC.

TALK SHOW "Home Depot's glass ceiling began with a glass basement."

—Gregory Stewart, general counsel for the U.S. Equal Employment Opportunity Commission, intervening in a sex-bias suit

SPORTS BIZ

THE UPSTART RACERS EAT SOME DUST

THE BIG-NAME RACE CAR drivers have pulled far ahead of the rival circuit sponsored by the owners of Memorial Day weekend's fabled Indianapolis 500. The Indianapolis Motor Speedway's owners started their own Indy Racing League a year ago, setting up races nationwide.

But the Championship Auto Racing Teams (CART), featuring such stars as Al Unser Jr. and Michael Andretti, bagged \$331 million from sponsors in 1996, vs. \$26 million for the Indy group, says the IEG consulting firm. And in 1997, IEG projects that CART will bring in \$387 million and Indy \$30 million.

The lure of CART's top-name drivers has kept its gilded list of sponsors intact. Some are increasing their involvement. MCI Communica-

tions has unveiled its "Million"—a \$1 million bonus for the driver winning specific races. At least year, CART won't hold a race on the same day as the Indy 500. Last time, the TV ratings dipped 20%



INDY '96: TV ratings were down

cause of the CART event. CART, which will run 17 races this year, is expansion-minded: To reach international sponsors, it started a race in Brazil. The Indy group, which has seven races plus the 500, says its efforts will eventually pay off. Bill Koe

PAPER PLAYS

A BOUTIQUE POACHES ON MERRILL'S TURF

HERB ALLEN IS BEST KNOWN as a media matchmaker, advising Westinghouse on its purchase of CBS and Seagram on buying MCA. But now he has startled Wall Street by arranging one of the biggest private securities sales in recent times: \$1.1 billion worth of new stock for Wayne Huizenga's Republic Industries. The buyers were several of Allen's institutional clients, notably Delaware Management and Alliance Capital.

The deal is a monster in the realm of private place-

ments, which bypass public markets. It surpasses the billion in bonds Merrill Lynch sold for Sakura Capital Funding Caymans in early March.

Huge private placements are usually done by full-service Wall Street houses with their armies of analysts and investment bankers. According to IDD Information Service, Merrill is the leader—\$27 billion raised in 1996. Allen & Co. (just 175 employees) has done small private placements in the past, around \$1 million or so each. Now, it intends to leverage its extensive contacts, such as Huizenga, to move into this area big-time. Allen has advised Huizenga since the mid-'80s.



ALLEN: Wayne's pal

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Up Front

CONTINENTAL RIFT

ANOTHER BLOW FOR MONETARY DISUNITY



EUROPEANS ARE NOT ONLY squabbling over how to prepare their economies for a single currency—called the euro and likely worth a little more than \$1. Now they're at odds over the new coins, slated to appear in 2002. There will be 100 cents to the euro.

Sweden insists that the coins not be minted out of nickel. That metal, Swedes

claim, causes allergies in up to 20% of all women. But other countries want to melt down existing nickel coins to make the new ones. Plus, they complain that Sweden's proposed alternative, an alloy, would be too expensive.

Germany, meanwhile, objects to a proposed nine-sided 20¢ coin. This coin is designed to help the blind, who might otherwise confuse it with the round one-euro coin of about the same size. But the German vending-machine industry argues that the polygonal coins would jam their machines.

European Union finance ministers, meeting recently in Brussels, were unable to break the impasse. They hope to unveil the final coin designs in June at an Amsterdam summit. Already, the designs for euro bank notes have been widely panned for dullness. *William Echikson*

SLUGFESTS

BLACK DAY FOR AN INK-JET TITAN

A PRICE WAR MAY BE ON THE way for ink-jet printer cartridges. A federal judge in Los Angeles recently sent a shock wave through the office-supply industry by overturning four patents for giant Seiko Epson's cartridges.

This provides an opening for rival Nu-kote and other upstarts to sell cut-rate cartridges for computer printers from Seiko and the other big boys that dominate this \$4 billion-per-year industry: Canon, Ricoh, and Hewlett-Packard. The major players' cartridges cost about \$35; the small fry sell for up to half that much.

U.S. District Judge Terry

Hatter's decision grows out of a patent-infringement suit Seiko filed against Nu-kote (the other three big outfits have similar actions pending). The court found that Seiko's patent applications were faulty since, among other things, the cartridges' Japanese inventors hadn't been provided with translations of some of the supporting documents. Seiko has asked the judge to reconsider and vows to appeal if he doesn't.

The news isn't totally good for Nu-kote. The judge has held it in contempt of court for violating a 1995 court order not to sell its Seiko-compatible cartridges during the litigation, which could cost Nu-kote millions. Nu-kote plans to file an appeal. *Stephanie Anderson Forest*



CARTRIDGE: *Free*

DRAWN & QUARTERED



BABY BUSTERS

BLEEDING HEARTS AT B-SCHOOL?

CARING, SOCIALLY CONSCIOUS, self-sacrificing. Is this the new MBA? A survey of over 2,100 students at 50 graduate business programs paints a picture starkly at odds with the breed's self-centered, money-grubbing image.

The survey finds 79% of the students feel a company must weigh its impact on society—by how it deals with the environment, equal opportunity, workers' families, and other such issues. Half say they would accept lower pay to work for a company they find "very socially responsible"; 43% claim they wouldn't work for an employer that isn't responsible.

True, these future execs

aren't oblivious to tradition precepts. They rank custom responsiveness as the characteristic of a well-run company, followed by product quality. Social concern lag: environmental responsibility is 12th; community involvement, 15th. The survey by Students for Responsible Business, was sponsored



such companies as Kinko's. Many MBAs, says the survey director, Mark Albion, a former Harvard business school professor, "social responsibility is not just a nice thing to do." *Keith Hammon*

THE BIG PICTURE

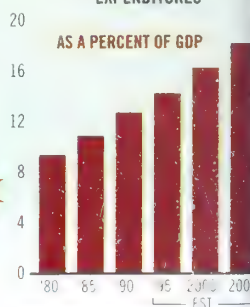
HEALTH-CARE PROGNOSIS

Even with slower growth, health costs account for an increasing share of the economy. By 2025, with the number of 75-plus Americans expected

to grow two-thirds, to 25 million, the trend is likely to continue.

NATIONAL HEALTH-CARE EXPENDITURES

AS A PERCENT OF GDP



251 434 607 1,000 1,472 2,115

BILLIONS OF DOLLARS

DATA: DELoitTE & TOUCHE LLP; VHA INC.

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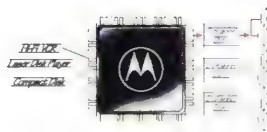
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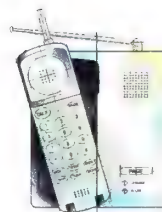
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Readers Report

TWO-TIER MARKETING: THERE'S MORE TO THE STORY

Very interesting, your article on "Two-Tier Marketing" (Cover Story, Mar. 17). Now, what we need is an explanation of why the U.S. is becoming a two-tier society, where a small percentage of people own most of the wealth and a larger group of people are becoming poorer.

Corporate America might want to consider its role in all of this and begin to assume greater social responsibility. How about making major investments in local communities with some of those huge, unprecedented profits? How about extending profit-sharing to employees who are not executives or managers? Creative two-tier marketing and advertising campaigns are not answers but symptoms of a problem. Preserving America's precariously balanced experiment in democracy and capitalism is possible only if those with wealth and power recognize their obligations to society beyond reverence for the Almighty Buck.

Yvette N. Tazeau
San Jose, Calif.

Your story on two-tier marketing is excellent. It emphasizes the need for companies to target their markets more selectively—specifically their product and service offerings. Each market segment has its own needs and requirements, and a company's marketing efforts must vary according to those customer needs. That includes price structures for the various products and services.

I would like to have seen more references in the story to how small-business owners and entrepreneurs can apply these concepts. Not everyone can identify with a Bloomingdale's or with commercials on *Roseanne* or *Seinfeld*. Yet the concepts are just as valid, or even more valid, for small-business owners. They, more than anyone else, must be able to segment and target their markets very specifically in order to stay in business.

Richard F. Gerson
Clearwater, Fla.

THE DOCTOR EXAMINES SUMNER REDSTONE'S BURNS

At the time of the fire in which Sumner Redstone was injured ("Sumner's Last Stand," Cover Story, Mar. 3), I was chief of Massachusetts General Hospital's Burn Center. As someone with considerable knowledge of the incident

and the subsequent serious injuries to Mr. Redstone, I am troubled by your version of the particulars of the "tale" surrounding the fire.

The distribution and depth of his burns—solid facts—are not consistent with your published comments. Having already sustained severe burns to his legs, he managed to get to a window, open it, and climb out—supported only by a ledge. The reason his right arm was burned from fingertips to shoulder and his left arm was unhurt was because he clung to the window sill, with his right arm remaining in the fire, until help arrived.

During a four-month period under care, he underwent five operations lasting up to 7½ hours. The treatments, which are extremely painful, included skeletal fixation of damaged finger joints as well as dressing changes, skin harvesting, and skin grafting.

Mr. Redstone's experience on that ledge, in the hospital, and in his generous support of Massachusetts General Hospital's Burn Center, is—in my opinion and the opinion of others—most extraordinary and a tribute to the irrepressibility of the human spirit.

John F. Burke, M.D.
Harvard Medical School
Massachusetts General Hospital
Boston

DON'T DEPEND ON OIL TO POWER US INTO THE NEXT CENTURY

Paul Craig Roberts ("Why big government should stop picking on big oil," Economic Viewpoint, Mar. 10) is correct to project a sharp increase in energy demand in the 21st century. A large share of this increase will be in the rapidly growing economies of the developing world.

However, his suggestion that new oil reserves are needed to prevent widespread reductions in living standards ignores the environmental implications of fossil-fuel use. Any significant rise in the use of fossil fuels will increase the atmospheric concentrations of the greenhouse gases that cause global warming. The potential consequences—erratic weather patterns, crop failures, and rising sea levels, to mention a few—would have serious economic and social consequences in the 21st century.

Recent advances in renewable-energy technologies and improvements in end-use efficiency offer alternatives to expanded use of today's inefficient technologies. We need to ensure that investments made today, especially in developing countries, are in energy sys-

CORRECTIONS & CLARIFICATIONS

"Bottom fishing for networking stocks" (Personal Business, Mar. 24) said Premisys Communications could lose Paradyne Inc. as a customer. Premisys says its sales Paradyne are assured through 2000.

tems that are sustainable throughout the next century and beyond.

Anders Wijkman
Assistant Administrator
U. N. Development Program
New York

THE WTO MEANS THE END OF U.S. ENVIRONMENTAL LAWS

Your commentary ("Uncle Sam is playing fair with the WTO," News Analysis & Commentary, Mar. 10) about the U.S. boycott of the World Trade Organization dispute panel U.S. economic sanctions against Cuba ignores an important point. The U.S. can boycott a panel but remains powerless to stop a judgment of this powerful autocratic bureaucracy.

If the U.S. loses this dispute (which is likely), it will have three choices: change the law, pay the European Union compensation, or face trade sanctions. The WTO could simply direct the EU to raise tariffs on U.S. goods from any industry—agriculture, motion pictures, automobiles, etc. Compensation would be the amount foreign companies and governments are "damaged" by the U.S. law. Regardless of one's opinion on the Helms-Burton Act, this power of the WTO raises serious concerns.

The first WTO ruling was against regulations under the Clean Air Act. Without the ability to stop WTO rulings, host of federal and state consumer and environmental laws are at risk, including the Nutrition Labeling & Education Act, federal sea-turtle protections, state and federal tolerances on lead in ceramic, and California's Safe Drinking Water Toxic Enforcement Act.

Lori Wallach
Director
Public Citizen's Global Trade Watch
Washington

WHAT'S BEST FOR CUBA: THE CARROT OR THE STICK?

I came from Cuba in 1961 at 16 to escape an oppressive dictatorship ("Castro's Capitalist," International Business, Mar. 17). I believe that we who left made the right decision. But many of us agree

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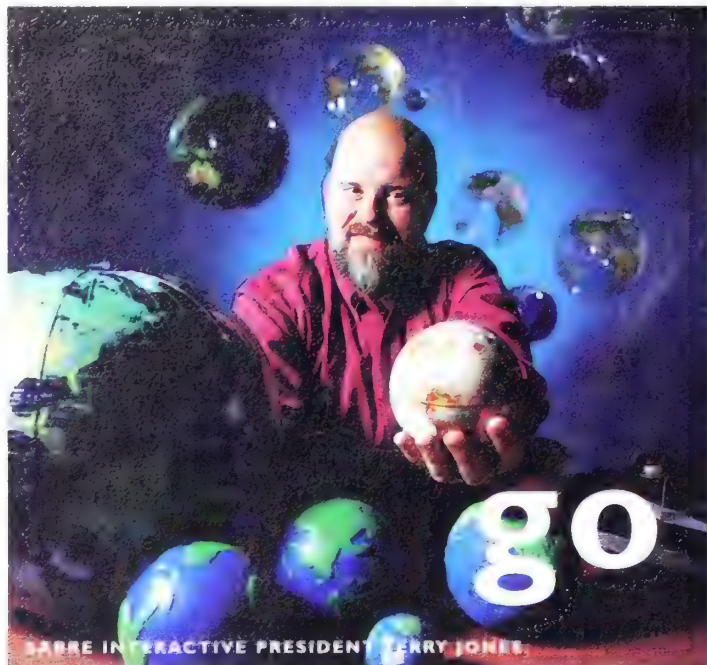
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Readers Report

at the U.S. embargo hurts the average Cuban in a game that, after almost 40 years, has made no difference except to give Castro a handy call to arms.

Men like Ian W. Delaney feed on the misery and oppression of a people under the boot of a petty dictator. As for his plan to expand tourism, he ought to stick to his knitting. Tourism is not the recipe for economic development that many think it is. Take a look around the Caribbean.

The day Fidel is gone, it is anyone's guess what will happen. The nature of dictators does not allow for smooth successions, and the stronger the dictatorship, the more violent the turnover. All these amoral and opportunistic investors get that economic opportunity must be accompanied by freedom. The Chinese model is good for the Chinese, but plans are not Chinese.

Juan A. Vega Sr.
President

U.S. Cigar Distributors Inc.
Coral Gables, Fla.

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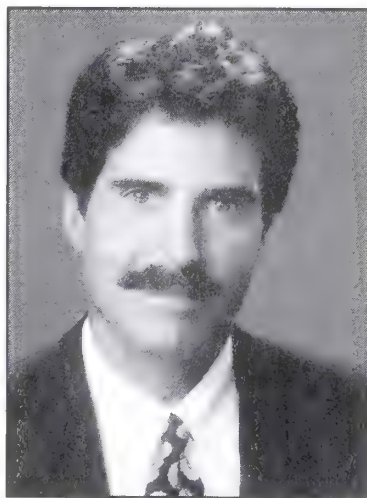


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MEMORIES OF SUMMER

When Baseball Was an Art, and Writing about It a Game

By Roger Kahn

Hyperion • 290pp • \$23.95

A SPORTSWRITER HITS A GRAND SLAM

Roger Kahn's mother hated baseball. So when the boy's father took the 7-year-old for a stroll through Brooklyn one April afternoon in 1934, he hinted that they would be heading toward the Botanic Garden, and he started off talking about ginkgo trees and sycamores. But when the father turned left on Bedford Avenue, the boy's heart leapt. Soon dad was walking faster. And as the boy trotted to keep up, the talk switched from botany to baseball. Roger Kahn was on his way to Ebbets Field for his first Dodgers game.

Talk about a charmed life. By the time he was 24, in 1952, Kahn was the Dodgers' beat reporter for *The New York Herald-Tribune*. He was riding the trains and pounding out 2,000 words a day on Jackie Robinson, Duke Snider, Pee Wee Reese and company. It's this story of a sportswriter that he tells in *Memories of Summer*, a book that reads as effortlessly as his 1972 classic, *The Boys of Summer*.

When Kahn was covering the Dodgers, and later the Yankees and Giants, baseball was at the zenith of American sport, but only a dim image on TV. Most fans, including everyone south of Washington and west of St. Louis, lived the game through words—words issuing from a radio or the pages of a newspaper. Fans in those pre-ESPN SportsCenter days carried impossibly green fields in their heads, and they relied on sportswriters—genies of a sort—to put players on the field and summon them to life.

Based in New York, Kahn had the best stories to tell. The three top teams in the world then occupied the Bronx, Manhattan, and Brooklyn. The Giants and Dodgers raged through fratricidal 154-game pennant races to see who would play David to the Yankees' Goliath in October. It was wonderful base-

ball, but also great social drama. For the Dodgers and later the Giants were racially integrated, while the Yankees remained all white. Consequently, the games meant far more than they do today. What's more, Kahn had every reason to consider some of the players he covered, especially Jackie Robinson, American heroes.

Not that he could write that in the paper. Editors at the *Herald-Tribune* censored social commentary from the sports pages. Their readers, they believed, didn't want those pristine fields complicated with matters of social justice. Keep it simple, they told him: the "heater" exploding into the catcher's mitt, the home run lofting over the Burma Shave sign. One day in St. Louis, Kahn summoned the nerve to file a story on a hotel owner who refused entry to the Dodgers' black players. Minutes later, he got a furious call from the sports desk in New York. The story never appeared.

The best drama in the book comes as Kahn and the Dodgers approach the 1952 World Series. For the Dodgers, of course, it's another chance to beat the hated Yankees for the first time. And for Kahn, who had never seen a World Series game, it meant climbing into the press box and hammering out a 3,000-word, front-page leader on deadline—this with his senior *Herald-Tribune* colleague, the legendary columnist Red Smith, looking over Kahn's shoulder. Added to the journalistic pressure, Kahn, the fan, was desperately—if quietly—cheering for his Dodgers. He wanted them to convince the skeptical Smith and everyone else that this team of black and white men was the great-

est in the world. As Kahn spins the yarn, even one who knows the outcome of the series will flip pages avidly, hoping against hope that the Dodgers can turn history on its head and win.

Kahn takes us through his sportswriting career, emphasizing his battles with editors over his desire to discuss the players as real people. More than the sportswriting accounts—no surprise here—is the book's description of baseball and the antics surrounding it. One day in Pittsburgh, the young Willie Mays streaks back in center field after a vicious liner off the bat of Rocky Nelson. At precisely the right moment, Mays looks over his shoulder. But the ball has hooked behind him. So Mays simply reaches down with his right hand and grabs it, barehanded, at knee level. As the exuberant outfielder trots back to the dugout, beaming, Giants manager and prankster Leo Durocher orders the players to give him the silent treatment. While Mays waits for someone

to say "nice catch," his teammates quietly feed him around with their bats, vint the water cooler, dribble tobacco juice on the floor. "Hey Leo," Mays finally pipes up. "You don't have to tell me it was a great catch. I know it was." A moment later, a folded note is passed into the Giants dugout from the box. Branch Rickey, the manager who four years earlier had brought Jackie Robinson

into the big leagues. It was the finest catch he'd seen in 50 years of watching baseball, Rickey wrote.

The book is chock full of similar stories. Only one complaint: I kept waiting for Kahn to draw a line from the magic of the '50s to today's troubled game. He wanted him to convince me, as a lapsed fan, that Major League Baseball is still a treasure worth handing down to my children. Instead, Kahn closes the book with his own generation, catching up with a grayling Mays in California, a dying Mickey Mantle in Texas. As Opening Day 1997 approaches, Kahn lets us know how great baseball used to be. And today? That's for us to discover.

BY STEPHEN BAKER

Pittsburgh bureau chief Baker lived and died with the 1964 Phillies.

Memories of Summer

When Baseball Was an Art
and Writing about It a Game

ROGER KAHN

KAHN COVERED THE GAME'S GOLDEN ERA, WHEN ITS SOCIAL DRAMA RIVALED THE ON-FIELD FEATS



Children Supplied The Art.



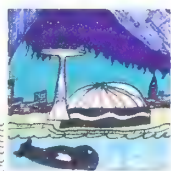
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BY STEPHEN H. WILDSTROM

3-D HOME-DESIGN: KEEP IT SIMPLE

Two modest software programs work well, but blueprints still may be the best bet

Mies van der Rohe hadn't heard of software when he laid down his great architectural dictum. But when it comes to the use of 3-D in home-design software, less most definitely is more.

Powerful home computers have made it simple to handle 3-D virtual-reality displays that were once the province of engineering workstations and \$10,000 computer-assisted design (CAD) software. But this new power is a mixed blessing. Making sense of a 3-D object projected onto a two-dimensional surface is no easier with a computer than it was in high school solid geometry.

WINDOWS. That's what I took away from hours spent with four Windows products (table) among many that let you design decks, kitchens—even whole houses. I found the virtual-reality features of Complete Home Designer from Alpha Software and Custom Home from Sierra On Line hard to use. Picture This Home! Kitchen from Autodesk and 3D Deck 3.0 from Books That Work have more modest ambitions, yet are far more successful.

All of the programs start with a blank drawing

board or a predrawn floor-plan template. You drag-and-drop to add such objects as walls, doors, and windows. When the shell is finished, you add furniture and other accessories. It's all simple, and you can keep rough track of your design's cost.

The problems start when you click the button that changes your plan into a 3-D rendering that you can "walk" through. Custom Home has decent tools to control your point of view, but I kept getting lost as I tried to make my way through a drawing.

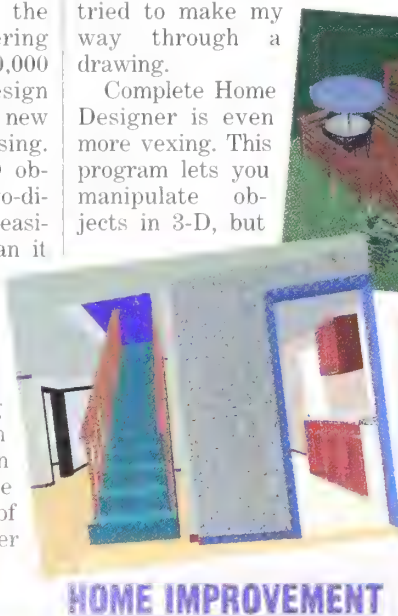
Complete Home Designer is even more vexing. This program lets you manipulate objects in 3-D, but

it is so hard to judge depth that I found it all but impossible to pick anything up. And on the rare occasions when I succeeded, I could never tell where an object would land when I set it down. Poor navigation tools make the walk-through even harder than with Custom Home.

A SNAP. That's why Autodesk's Kitchen program was so welcome. This first consumer product from the maker of the professional AutoCAD program is easy to use. Unlike either of the house-design programs, Kitchen's drawings look like real blueprints, with proper side views as well as floor plans. For greater accuracy, its furnishings are real appliances from companies such as General Electric and KitchenAid. The 3-D is limited to a look around your one-room handiwork.

Neither the home nor the kitchen programs do more than produce drawings that you could use as a starting point when talking to a designer or an architect. 3D Deck, however, helps you build your masterpiece. It generates a bill of materials and a lumber-cutting plan, and it includes extensive instructions, including many animations. Like Kitchen, its 3-D component consists primarily of a panoramic view of your creation.

Just because something is possible doesn't mean it's a good idea, and 3-D design seems to fit that category. While virtual reality can be powerful, the limitations of today's products mean you'll do better sticking to two dimensions when you plan that dream home.



HOME IMPROVEMENT

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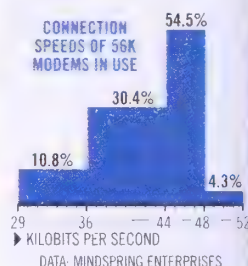
BULLETIN BOARD

MODEMS

TOP SPEED LIMIT

What sort of transmission speeds are you likely to get if you buy one of those new 56 kilobit-per-second modems? Not 56K, but probably in the high 40s. MindSpring Enterprises, an Atlanta-based Internet service provider that

NOT SO FAST



is testing U. S. Robotics' X2 technology in the Southeast analyzed 1,900 calls in early March. As the chart shows, most connected at between 44K and 48K. Noisy phone lines, the same factor that prevents conventional modems from reaching their rated top speed of 33.6K or 28.8K, are the chief culprit.

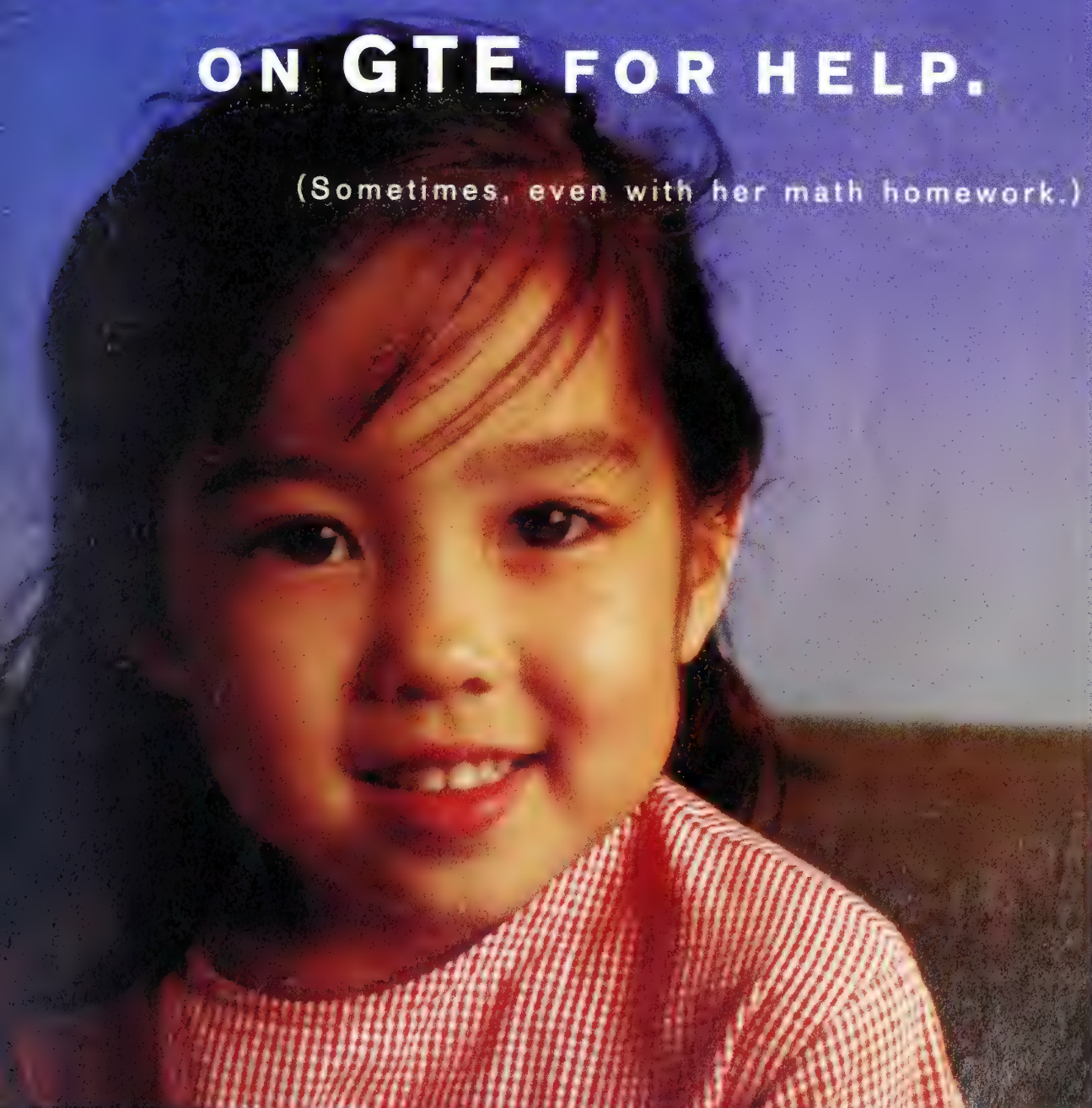
BROADCAST LINKS

PLAY IT AGAIN, FANS

Basketball games unfold so fast that even hard-core fans can have trouble following action. ShockWave animation technology behind the Coach's Edge at www.sportsline.com, can show, among other things, how North Carolina's Antawn Jamison found himself open under the basket in the Tar Heels' Mar. 16 victory over Colorado. The animations are the same used in the CBS broadcasts of NCAA tournament games, but control allows you to slow the action and rerun the play until you spot how that pick-and-roll sprang Jamison from

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BY PAUL CRAIG ROBERTS

ECONOMIC FREEDOM: HOW DOES THE U.S. STACK UP?



GRIM FACT:
The best gauge
may be the tax
burden, and by
that standard,
successful
Americans are
no better off
than serfs
in the
Middle Ages

The worldwide collapse of socialism has revolutionized the theory of economic development. Formerly, most academic economists, as well as those in the CIA, believed that growth was fueled by high rates of investment, access to cheap natural resources, the ability to absorb the latest technology, and, most important, a central plan to insure against the "anarchy of the market."

The economic irrationality that resulted from this approach has discredited it. Today, economists stress the value of free economic institutions. When one compares economic success as measured by the rise in living standards, countries fare better with lower levels of taxation and tariffs, less government regulation, a stable monetary policy, a freer banking system, free flow of domestic and foreign capital, and strong protections for private property.

NOBEL INFLUENCE. Douglas North, whose work stresses the importance of institutions, recently won the Nobel prize in economics. His influence is reflected in two recent books. One is my own, *The Capitalist Revolution in Latin America*, published in March by Oxford University Press. The other is the Heritage Foundation's *1997 Index of Economic Freedom*.

My co-author, Karen LaFollette Araujo, and I discovered that the more successful Latin American countries have shifted away from what economists call rent-seeking (rewards from government-dispensed privileges and protections from competition) to profit-seeking (rewards from risking capital in the market). Chile is the best example. Its government consumes only 9% of gross domestic product compared with 35% in the U.S. (including state and local). This low rate was achieved by privatizing the state social security and national health systems and by permitting private education and public utilities.

Economists acknowledge that government uses resources less efficiently than the private sector and, therefore, the larger the government the greater the economy's loss of efficiency. We found another reason why the size of government matters. The larger the state presence, the more the economy is characterized by rent-seeking.

Government draws seekers after privilege like a magnet. The bigger the magnet, the greater the distortion of economic incentives,

as people find that success depends more on access to government than on efficient market behavior.

Heritage's index bears this out. The most successful economies have the most economic freedom. Hong Kong has the best ranking and its economic success is legendary. Singapore has the second-best ranking. The U.S. and Switzerland are tied for fifth, followed by Britain (thanks to Margaret Thatcher's reforms) and Taiwan. Interestingly, the Czech Republic has a better ranking than Japan or any other Continental European country.

Heritage's effort to explain economic success in terms of the freedom of economic institutions is an important undertaking. An index has subjective elements, and Heritage would probably benefit from some changes in emphasis and weighting. Chile's ranking, for example, is marred by black-market piracy of computer software and pharmaceuticals and by the presence of a state lending agency. These are undesirable but hardly seem to offset the small percentage of GDP taken by government.

FEUDAL BUTTONS. In my view, the most important indication of economic freedom is the tax burden. In the U.S., successful, hard-working people face a combined state, local, and federal marginal tax rate of 50% or more, and they routinely hand over one-third or more of their annual incomes to the authorities. It is stretching things to describe people as free when they do not own the product of their own labor.

My first article as a scholar was published in a journal of classical and medieval studies. It caused a sensation and was republished for many years in widely-used textbooks. While researching the subject, I had occasion to survey the tax rates faced by medieval serfs. They varied over time and place but tended not to exceed one-third of the serfs' labor. There was a good reason for this. The productivity of labor was low, and a man who owed more than one-third of his labor to the government could not survive. As he had nothing to lose, he would revolt and kill the tax collectors. Thanks to capitalism, labor productivity today is high, and we do not dwell on the implications of successful Americans having no more ownership rights in their own labor than did medieval serfs. Maybe we should.

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Equity-Income	Fidelity Equity-Income	16.94	Medium Company Value	18.26
Small Company	Janus Venture	12.93	Small Company Blend	16.33
Foreign Stock	Templeton Foreign	9.60	International Stock	11.59
Corporate Bond	Fidelity Intermed. Bond	4.64	Bond & Mortgage	6.43
Gov't Mortgage	Fidelity Ginnie Mae	6.22	Government Securities	5.38
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Economic Trends

BY GENE KORETZ

GLOBAL PROFITS DEFY THE DOLLAR

U.S. multinationals are on a roll

According to most analysts, the strong dollar represents a clear and present danger to growth of U.S. corporate earnings this year. While a rising greenback can hurt American companies at home and abroad and reduce the value of multinationals' foreign profits, economist Joseph P. Quinlan of Dean Witter Reynolds Inc. isn't worried.

Quinlan points to the latest government report on 1996 corporate receipts from foreign direct investment, a proxy for U.S. international profits. With the

AN EARNINGS SURPRISE FROM OVERSEAS



global economy still sluggish and the dollar headed higher, the consensus view last year was that such earnings would tank as the year progressed. In fact, they moved sideways in the second quarter and sagged 2.6% in the third.

In the fourth quarter, however, foreign direct-investment receipts surged to a record \$26.2 billion—18% above the prior quarter and 20% above their year-earlier level. As a result, the annual total hit \$93.5 billion, up 9.3% from 1995, which itself saw a hefty 30% advance.

By region, the strongest contributor to the profits rise last year was Latin America, where the take from Mexico doubled and receipts excluding Mexico rose by 14.2%. Meanwhile, despite the weak yen and strong dollar, direct-investment receipts from Japan jumped 16.4%. While such earnings from the European Union rose only 6% last year, both Britain and the Netherlands, two of the more robust European economies, turned in gains of around 20%.

Quinlan thinks such factors as global brand awareness and America's high-tech edge and production efficiencies are giv-

ing a leg up to U.S. companies' overseas subsidiaries. With the global economy likely to pick up steam, he predicts that foreign earnings will stay buoyant—despite the drag from a strong dollar.

HOUSE PRICES ARE A-BUILDING

And homeowners feel more flush

Don't look now, but inflation-adjusted prices of existing U.S. houses in 1996 outpaced overall inflation for the first time in this decade. Economist Rosanne M. Cahn of Crédit Suisse First Boston Corp. points out that the median price of such houses rose by 5.2% in nominal terms and 2.2% in real terms.

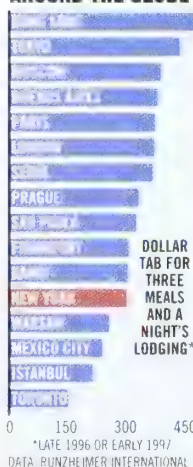
Cahn believes that the 1996 "break to the upside" could mark the start of a new period of home price appreciation—a development that would bolster the economic outlook. She notes that 65% of households are homeowners, and in many cases home equity represents their largest asset. "Already," she says, "the recent firming in home prices is contributing to near-record consumer sentiment and to robust spending."

THE DAILY TAB FOR TRAVELERS

High in Hong Kong, low in Toronto

For the first time in recent memory, reports consulting firm Runzheimer International, the priciest city for business travelers is not Tokyo. In Hong Kong, the daily cost of three meals and a first-class hotel room runs about \$474. Not far behind are Tokyo and cities in the \$300-\$400 range, with Moscow and Buenos Aires on the high end and New York on the low end (table). The least expensive stops in Runzheimer's global 100-city survey include Bordeaux (\$133) and a passel of Canadian cities such as Toronto (\$155) and Montreal (\$141).

PER DIEM COSTS AROUND THE GLOBE



WILL WELFARE REFORM WORK?

A growing economy may be the key

With most states implementing welfare-reform experiments in recent years, the sharp decline since early 1990 in the number of recipients of Aid to Families with Dependent Children (AFDC) is stirring a heated debate.

Some policymakers, including a number of governors, argue that the drop confirms the success of recent reform measures and bodes well for the new national Temporary Assistance for Needy Families program that is replacing AFDC. Other experts attribute shrinking caseloads mainly to the effects of the six-year economic expansion.

In part, this debate reflects different attitudes toward poverty. Where many argue that greater job opportunities are the *sine qua non* for reducing poverty, avid reformers see poverty as a behavioral phenomenon that is exacerbated by welfare dependency. In the latter view, the poor will tend to find work if, in the words of conservative thinker George Gilder, they are exposed to "the spur of their own poverty."

As it happens, a new study focuses precisely on the role of labor demand in increasing or reducing welfare use. Economist Hilary Williamson Hoynes of the University of California at Berkeley has analyzed the progress of some 100,000 AFDC cases in all 58 counties in California from 1987 to 1994, relating them to local labor market conditions.

Hoynes found that rising unemployment and slowing employment and wage growth were all associated with longer spells on welfare. Faster employment or real earnings growth, on the other hand, led to shorter welfare spells. Local labor market conditions had similar effects on welfare entry rates.

Weighing all these factors, Hoynes estimates that shifts in labor demand over a business cycle can lead to rises or declines in welfare caseloads of 15% to 20%. Also, welfare rolls appear to expand relatively quickly in the wake of downturns, but to decline more slowly in the initial phases of expansions.

Hoynes's results suggest that much of the recent decline in welfare usage may in fact be related to improving economic conditions. And they underscore how important a sustained expansion and rising earnings for low-wage workers are to continued progress in curtailing welfare—and ensuring the ultimate success of the major reforms under way.

BY JAMES C. COOPER & KATHLEEN MADIGAN

THE QUESTION NOW: WHAT'S THE FED'S NEXT MOVE?

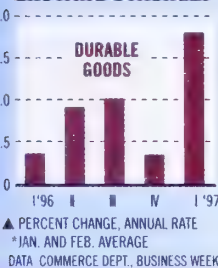
Strong demand threatens to keep the inflation barometer rising

U.S. ECONOMY

Ah, to be a fly on the wall in the room with the big oval table. The meeting place of the Federal Reserve's policymaking committee was undoubtedly the site of the most tense discussion on Mar. 25, amid heavy anticipation of the first interest-rate hike in two years. Six weeks will pass before the Fed releases the sanitized version of its decision to lift the target rate for overnight lending between banks, to 5.5%. So for now, analysts can only speculate about what went on, what happens next, and what it all means for the outlook.

The Fed's official statement said that "persisting strength in demand" was raising the risk of inflationary imbalances. The rationale closely mimicked a paragraph in Fed Chairman Alan Greenspan's Mar. 20 Congressional testimony, and the Fed's action suggests that he is skeptical that productivity growth will offset those possible imbalances. That speech had convinced many Fed watchers and the financial markets that the central bank was ready to move.

FACTORY ORDERS ARE GROWING STRONGLY



That's because the latest data from the first quarter continue to point to a vibrant economy fueled by domestic demand. Upbeat consumers are leading the charge, and order books of durable goods producers continue to swell (chart). Growth in real gross domestic product will understate this vigor, however, but that's only because the huge widening in the January trade gap was exaggerated by temporary factors.

WHAT'S NEXT? With momentum in the economy still strong, further rate hikes seem likely, as the Fed acts to assure that overly robust demand does not strain labor markets and plant capacity beyond the point where price pressures typically begin to grow. Tighter policy means that the economy will slow from its current rambunctious pace, and that slowdown

should become evident late this year and into 1998.

For now, though, demand shows no sign of letting up, and manufacturers are responding. Orders for durable goods rose 1.5% in February following a 4.1% surge in January, which pushed first-quarter bookings far ahead of their fourth-quarter level. Moreover, unfilled orders posted another solid advance in February. And amid very low inventories, the rising backlog implies further gains in output this spring.

A key topic at the policy meeting was surely the surprising strength of consumers. Just minutes after the confab began, the Conference Board reported that its index of consumer confidence remained unusually high in March. The index dipped to 118.5 from 118.9 in February, but the February level was the highest in almost eight years. Households' assessments of both present conditions and expectations for the future edged lower, but the reading on the current economic climate held close to a 27-year high.

The report also played into one of Greenspan's often-stated concerns about future inflation: The era of job insecurity, which had restrained wage growth, is ending. The Board said households were increasingly upbeat about job prospects, with 33.1% saying that jobs are "easy to get," the highest rate since 1989 (chart).

That appraisal fits with the recent pattern of initial unemployment claims. The four-week average of new claims stood at 312,000 through mid-March, near the lowest level in this expansion. That reading suggests that the unemployment rate, currently at 5.3%, will continue to decline. The rate is already below nearly all estimates of "full employment," and job-market tightness will accelerate wage growth, a primary fuel for the current round of consumer-led demand.

BEFORE REACHING THEIR DECISION, the central bankers likely discussed the foreign sector as well. And they were probably interested in both sides of the trade ledger: Exports can provide strength to economic growth, while imports can act as a safety valve for overtaxed U.S. capacity. And recently, cheaper imports have helped to keep goods inflation under wraps. Trade promises to have been a big negative for real

ARE WORKERS SHEDDING THEIR INSECURITY?



Business Outlook

GDP growth in the first quarter. The January trade deficit soared to \$12.7 billion from December's \$10.5 billion. Exports fell 0.6%, the second consecutive decline. And imports increased 2.2%, to a record \$83.5 billion. Imports, however, were boosted by an extra \$1 billion of Canadian-made vehicles and parts. That reflected a catch-up in shipments after December's auto strike, and it should not be repeated in February.

Real net exports, the GDP measure of the trade gap, appear to have started the first quarter some 50% worse off than the fourth-quarter average. The final tally of net exports won't look that dismal, but trade stole a sizable chunk of GDP growth. Part of the explanation seems to be faulty seasonal factors, because the Commerce Dept.'s seasonally adjusted data for exports have their own seasonal pattern. Commerce's adjusted exports typically strengthen in the fourth quarter, only to weaken in the first quarter.

BETTER TRADE NEWS is on tap for later in the year, however. Although the rising dollar will constrain exports, stronger economies overseas will lift foreign demand for U.S. goods, especially capital equipment and consumer goods. Imports, however, will rise as long as domestic demand increases—which is why for all of 1997, foreign trade will be neutral for GDP growth.

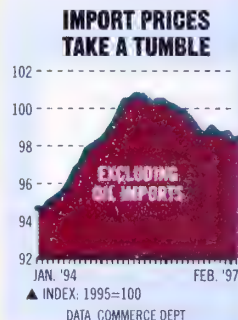
The Fed realizes that in the short run, cheaper imported goods will provide an offset to home-grown in-

flation. Merchandise import prices, excluding oil, have been falling steadily since late 1995 (chart), a result of the stronger dollar. In the 12 months ended in February, nonoil prices were down 1.9%. The big reason has been the dollar which, when compared to a basket of currencies from the major U.S. trading partners, has risen nearly 19% since hitting a low in April, 1995.

However, import prices are unlikely to repeat their 1996 performance. Although the trade-weighted dollar has soared more than 5% in the first quarter, further gains will be harder to come by. The Bundesbank has already started to voice concerns that the dollar is too strong against the German mark. And Greenspan himself cau-

tioned in his Mar. 20 testimony that "although nonoil import prices should remain subdued in 1997... their dampening effects on U.S. inflation probably will not be as great as in 1996."

While foreign trade and the dollar matter to the Fed, Greenspan knows that the ultimate dampening of inflationary pressures must come from slower domestic demand. That's why the Fed tightened, and that's why it is likely to tighten some more.



ITALY

AN ELEVENTH-HOUR SPRINT TO TRIM THE DEFICIT

Italy's struggle to qualify for first-round entry into a single-currency Europe continues. The government has announced a supplementary budget that officials say will cut another 16 trillion lire (\$9.4 billion) from the deficit. The minibudget will attempt to reduce the shortfall from a projected 3.8% of gross domestic product to the 3% required by the Maastricht Treaty.

However, Prime Minister Romano Prodi's Olive Tree coalition will have to pass the legislation over the objections of Prodi's parliamentary ally, the Communist Refoundation Party, possibly with help of the opposition Forza Italia headed by former Prime Minister Silvio Berlus-

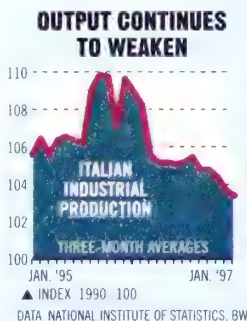
coni. Still, the package is unlikely to deliver all that it promises. The Forza Italia is opposed to additional taxes and the Communist Refoundation will fight cuts in social spending, so the plan will depend heavily upon accounting transfers, temporary measures, and other savings that are difficult to quantify.

Prodi is also fighting a weak economy. Italy's preliminary real GDP fell 0.1% in the fourth quarter, bringing 1996 growth to only 0.8%, down from 3% in 1995, and prospects for 1997 are dim. The government recently lowered this year's growth projection from 2% to 1.2%.

A rebound in early 1997 seems

unlikely, given January's disappointing data on industrial production and recent survey results. Business investment is adding some modest support, but exports have weakened with last year's strengthening in the lira, which returned to Europe's exchange rate mechanism in November. Consumer spending has slowed sharply, and fiscal tightening will continue to depress domestic demand generally.

Lower interest rates would help both the economy and budget prospects, since Italy's deficit is all interest. A weak economy and low inflation, which is expected to dip below February's 2.2%, may allow the Bank of Italy to shave the discount rate this spring. But any cut depends on a stable lira, and that requires credible progress toward deficit reduction.



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NICOTINE FIT

The LeBow deal could mean open season on Big Tobacco

Like most tobacco advertising, the billboard features a pair of glamorous, healthy models. On the left is a handsome rake in a tux; on the right, an elegant brunette with a 1940s chignon. "Mind if I smoke?" he asks, balancing a cigarette on his lips. Her eyebrows are raised flirtatiously: "Care if I die?" she responds. The tough antismoking ad was developed by California's Health Services Dept., part of a \$107 million campaign against tobacco that will include ads on television, radio, and billboards. A similar campaign in the early 1990s, California officials claim, cut cigarette consumption there by 12%.

California's anti-smoking crusade barely rated a mention in the news, however. The day state officials unveiled their renewed initiative, Mar. 20, Liggett Group Inc. made headlines around the world when it announced a sweeping settlement with 22 states that are suing the tobacco industry to recover Medicaid costs. Bennett S. LeBow, chairman of Brooke Group Ltd., Liggett's parent, dominated news reports everywhere—acknowledging that cigarettes are addictive and carcinogenic, and saying that manufacturers had targeted youths under age 18 in their marketing. LeBow also agreed to turn over documents that the state attorneys general think might give them the ammo to slay the industry in court.

Perhaps they will. But California's hard-hitting ad campaign symbolizes a threat that may be even more deadly to Big Tobacco. While the Liggett deal

could eventually help the AGs and a herd of antitobacco plaintiffs' lawyers win a fortune from the industry, LeBow's bombshell will have a more immediate effect. It will make it open season on Big Tobacco, encouraging states to step up antismoking campaigns and lay on ever-bigger taxes. "Legislators have decided that being opposed to the tobacco industry is motherhood and apple pie," says Richard Daynard, chairman of the Tobacco Products Liability Project in Boston.

TAX HIKE. Cigarette taxes, already on the rise, could be the biggest threat to the tobacco companies. Antismoking activists claim that for every 10% increase in the price of a pack, overall consumption decreases 4%. Teen use drops

by an even sharper 12%. In February Oregon imposed a cigarette tax increase of 30¢ a pack, effectively boosting price for most smokers by well over 10%. Tax hikes ranging from 2¢ to 10¢ have been passed over the past year in Arkansas, Utah, and Massachusetts. Meanwhile, 21 other states are considering raising the levy on cigarettes.

In Washington, Senator Edward Kennedy (D-Mass.) is joining forces this year with Senator Orrin Hatch (R-Utah) on a measure to raise the federal tax on a pack of cigarettes from 24¢ to 67¢. "Right now, it appears that taxing cigarettes is a politically acceptable way of raising money," says Stephen Moore, director of fiscal policy at the Cato Institute, a Washington conservative think tank.



in Washington and in the capitals across the country, officials are tripping over themselves trying to find some new way to punish the tobacco industry. A new law in Massachusetts requires companies to disclose the ingredients of cigarettes starting in July, though the industry is challenging the law in court. The Justice Dept. is expected to use Liggett's new documents to bolster its criminal inquiry into allegations that the tobacco companies lied to federal authorities and defrauded the public. And the Federal Trade Commission is considering reopening an unfair advertising case against R.J. Reynolds Tobacco Co.'s Joe Camel campaign, alleging that the cartoon character induces minors to smoke. Pending the outcome of the industry challenge, new Food & Drug Administration restrictions on a variety of industry marketing practices go into effect this

AS THE LEGAL PICTURE DARKENS...

CONNOR VS. RJR NABISCO This personal-injury case, scheduled to be tried in April in Florida, has Big Tobacco very nervous.

MISSISSIPPI VS. AMERICAN TOBACCO, ET AL. Set to begin in June, this is the first trial of a suit by a state seeking to recover Medicaid expenses.

FLORIDA VS. AMERICAN TOBACCO, ET AL. Many analysts consider Florida's suit to be the most dangerous state Medicaid case for the tobacco companies. It's expected to begin in June.

...TAX HIKE ARE IN THE AIR...

JURISDICTION	TAX HIKE PER PACK	STATUS
ALASKA	Up \$1, to \$1.29	Proposed
HAWAII	Up 40¢, to \$1	Proposed
MASSACHUSETTS	Up 25¢, to 76¢	Enacted in 1996
OREGON	Up 30¢, to 68¢	Approved in 1996
FEDERAL GOVERNMENT	Up 43¢, to 67¢	Proposed

DATA: TOBACCO INSTITUTE, BUSINESS WEEK

...AND BIG FUNDS ARE EDGY

MASSACHUSETTS PUBLIC RETIREMENT INVESTMENT MANAGEMENT BOARD would be forced to sell about \$200 million in tobacco stocks under a bill that the state legislature is likely to pass. It's not clear whether Republican Governor William Weld will sign it.

TIAA-CREF holds \$1.2 billion in tobacco stocks. Last year, 22.4% of voting beneficiaries supported complete tobacco divestment.

MINNESOTA STATE BOARD OF INVESTMENT could dump tobacco holdings amounting to less than 1% of assets.

DATA: INVESTOR RESPONSIBILITY RESEARCH CENTER



summer. They range from eliminating most vending machines to banning free samples of cigarettes.

Investor pressure is also on the rise. Last year, the New York State Common Retirement Fund and the New York State Teachers' Retirement Fund took steps to restrict tobacco stock ownership, and the Maryland Retirement & Pension System decided to divest completely. This year, pension funds in Maine, Massachusetts, Minnesota, and New York City are considering similar options according to Doug Cogan, an activist with the Investor Responsibility Research Center.

Moreover, the New York State Common Retirement Fund and the Min-

nesota State Board of Investment are sponsoring shareholder resolutions asking RJR Nabisco Inc. and Loews Corp., parent of Lorillard Tobacco Co., to volunteer to comply with the new FDA tobacco regulations.

Cogan likens the campaign for tobacco divestment to the campaign for South African divestment in the 1970s and 1980s. Back then, state pension funds took the lead in filing socially oriented shareholder resolutions aimed at ending apartheid. LeBow's bombshell "could be an example of the type of event that will lead more institutional investors, if not to divest, then to at least support shareholder resolutions," he adds.

COLLEGE OUTCRY. A whiff of campus activism is also in the air. On Mar. 13, Smith College announced that it would sell the tobacco stocks in its \$617 million endowment, and Haverford College is considering following suit. The decision "was made on principle because... we feel that tobacco companies appear to be

doing some heavy promoting of smoking amongst women," says Smith spokesperson Ann Shanahan.

In spite of the crowing of the attorneys general, it's not clear what impact LeBow's admissions and new documents will have on the state health-care cases—or on the hundreds of personal-injury cases against the industry. While plaintiffs' lawyers could certainly use his words about the dangers of cigarettes as a damning confession, defense lawyers for other tobacco makers would have no trouble discrediting the corporate raider on grounds of lack of expertise and self-interest in securing a settlement.

The documents that Liggett intends to turn over, which include notes from meetings of the Committee of Counsel, a

group of in-house tobacco lawyers that plotted litigation strategy, are more threatening. In some of the 22 suits, the AGs have charged the industry with running a criminal conspiracy. And, says University of Florida law professor Lars Noah, the Liggett documents could provide evidence of such corporate collusion. The industry, however, challenges the validity of the AGs' claims on legal and factual grounds and is trying to prevent the release of the documents.

Publicly, Big Tobacco is maintaining a unified and belligerent front. RJR and Philip Morris Cos. wasted no time in attacking LeBow, who they say is only trying to shore up his troubled company. "While Bennett LeBow is entitled to express his personal views regarding smoking and health issues, those views tend to change, depending on the circumstances in which they are uttered," Philip Morris said in an official release. Like RJR, Philip Morris tried to downplay LeBow's admissions by arguing that the American public has long been aware of warnings about the health risks of cigarettes.

MORALE BOOSTER. But the publicity surrounding LeBow's deal has clearly stung. On Mar. 21, RJR Chairman Steven F. Goldstone fired off a memo to his troops to boost morale. "When you cut through all of the sensational rhetoric, a simple truth remains: Our colleagues at Reynolds Tobacco manufacture and market a legal product that millions of people choose to enjoy. They... have every reason to be proud of their company and their accomplishments," he wrote. And share prices, which rose sharply on settlement hopes, have dropped. Bellwether Philip Morris peaked at 139% on Mar. 11, closing at 119% on Mar. 26.

The irony of LeBow's betrayal of Big Tobacco is that it may delay, not hasten, the peace process between the industry and its opponents. LeBow's public *mea culpa* has emboldened antismoking activists to insist on even more stringent regulation. That would mean generic packaging and a nationwide tax increase of at least \$1 to \$2 a pack. Activists may also demand "essentially the elimination of all tobacco marketing," says Daynard, of the Tobacco Products Liability Project. To add insult to injury, the industry would also be expected to pay for a new nationwide anti-tobacco ad campaign such as the one in California.

Clearly, peace will come to Big Tobacco only at a very stiff price. On the other hand, war gets more expensive every day.

By Mike France, with Lori Bongiorno in New York, and John Carey and Catherine Yang in Washington

News: Analysis & Commentary



THE FED

ONCE MIGHT BE ENOUGH THIS TIME

If the economy cools, Greenspan may hold off on another hike

At L. L. Bean Inc., apparel sales are exceeding expectations. "Spring has gotten off to a wonderful start," says a spokeswoman for the Freeport (Me.) catalog retailer. In San Francisco, AirTouch Communications says demand for cellular-phone service is ahead of last year, when the carrier enjoyed a 45% surge in new customers. Continental Airlines Inc. filled 67% of its seats in February, giving the carrier its best February ever. "Traffic has never been better," says Chief Operating Officer Gregory D. Brenneman.

Flush with stock-market profits and higher incomes, consumers are suddenly spending with abandon on everything from new clothes to new houses. Domestic demand for all goods and services in the first quarter is surging at a

4.5% clip, estimates St. Louis economist Joel Prakken.

All the signals were there for a classic anti-inflationary rate hike by the Federal Reserve. Sure enough, on Mar. 25, the Fed nudged up the federal fund rate that banks charge each other for overnight loans from 5.25% to 5.5%. Other rates rose in tandem.

But this may not be the classic scenario. For one thing, Fed Chairman Alan Greenspan had gone to great lengths—in congressional testimony and other speeches—to telegraph the coming hike. When it came, in fact, the move was so heavily discounted that by Mar. 26 the markets seemed to have shrugged it off.

More important, this hike may now signal the beginning of a series of hikes

Few businesses are able to pass through



Additionally, such a **STEADY THERE:** Construction is up, but for how long? Economists expect that the history of monetary policy is that once is never enough," argues Stuart Hoffman of PNC Bank Corp. But those who study Greenspan closely believe the Fed chief might break precedent by halting after one increase. Why? He's betting on an imminent slowdown; he voted for the Mar. hike as a cheap insurance policy in case he's wrong. Indeed, for nine months the chief had fended off calls by hawkish colleagues to raise rates, since he was convinced a slowdown was coming. And even though consumer confidence in February soared to an eight-year high and orders for durable goods have remained robust, there have been few signs of price surges (charts). What's more, worker anxiety—one of Greenspan's pet indicators—remains high by some measures (page 38). Greenspan also expects a surging dollar to help cool the economy by crimping export growth. And with Japan still in a funk and Europe struggling to salvage a well-planned merger of its currencies, the Fed sees the dollar climbing higher.

Still, with the economy expected to record its second straight quarter of 3%-plus annual growth, Greenspan could not hold out against at least a minor rate boost. Among those prodding him was Robert T. Parry, president of the Federal Reserve Bank of San Francisco, who recently expressed concern that "very much more than 2% [growth] would be undesirable." Greenspan seemed to agree when he told Congress on Mar. 20 that despite a lack of inflationary pressure, the Fed's biggest mistakes in the past occurred when "we were too late in moving."

SPRING FEVER. Now that it has moved, will the Fed retreat to the sidelines? Economists believe the first-quarter spending binge has been fueled partly by \$8 billion in early income-tax refunds and unusually warm weather that boosted spring apparel sales. Prakken notes that a forecasting model he built with former partner Laurence H. Meyer—now a Fed governor—shows that the full-point tightening favored by Wall Street inflation vigilantes would snuff out the expansion by next year. "Anything more than the most modest of nudges risks pushing growth to zero," he says.

Some business leaders protested the nudge. But others, such as Chrysler Chairman and CEO Robert J. Eaton, support a preemptive move. "I don't think a quarter of a point is going to have any effect [on auto sales]," Eaton says. "We won't recognize it in the spring selling season."

At Wal-Mart Stores Inc., the outlook is cautious. Sales rose 6.7% in February at stores open a year or more. But most of the gains came from sales of

basics such as lawn and household supplies rather than electronics and other pricey items that indicate consumers are shooting the works. This trend doesn't "lead us to believe the consumer is overly confident," says Senior Vice-President of Finance J.J. Fitzsimmons.

What's more, few businesses are finding that they can pass through price hikes—another sign that consumers aren't buying with reckless abandon. "There's excess capacity in the world for everything, so nobody gets [full] price," says John M. Trani, chief executive of Stanley Works, the New Britain (Conn.)-based manufacturer of tools.

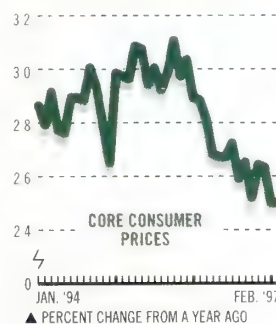
As a result, executives say they're still under pressure to lower costs. "There's still a feeling you have to get stronger or be swallowed," notes Joel Weinberg, CEO of American Tack & Hardware. Home Depot Inc., he says, has been angling for 30% price cuts from American Tack and other suppliers as the price for keeping its accounts. "There's going to be a concentration of accounts and consolidation in the hardware business," laments Weinberg, whose company derives one-fifth of its sales

from Home Depot.

These trends are evidence of what some call the "new economy." Global competition, the rise of highly productive information industries, and unrelenting corporate downsizing promote faster growth and lower unemployment without triggering inflation. Greenspan isn't so sure the rules have changed permanently, but for now, he's not ready to jam on the brakes.

By Dean Foust in Washington, with bureau reports

INFLATION REMAINS TAME...



...BUT CONSUMERS ARE CONFIDENT...



...AND GROWTH IS ROBUST



ce increases—a sign consumers aren't all that giddy

COMMENTARY

By Aaron Bernstein

WHO SAYS JOB ANXIETY IS EASING?

Did the Federal Reserve overreact by raising interest rates on Mar. 25? True, the economy has shown exceptional signs of strength recently, heightening concerns that inflation may rear up later this year. But the economy has looked strong several times before in the past two years without causing the Federal Reserve to hit the brakes. Then, Chairman Alan Greenspan argued that widespread downsizing made employees afraid to demand the big raises that would kick off inflation. Lately, however, he has been saying that job insecurity is easing. This was undoubtedly a factor in his support of the quarter-point hike in the federal funds rate.

Problem is, job insecurity hasn't vanished. New figures show that companies are laying off even more than they were a year ago, when worker anxiety hit the front pages. And employees are more worried about losing jobs, according to a new survey by the University of Wisconsin. Given the numbers, "I don't know why policymakers perceive an improvement in worker anxiety," says Jeff Dominitz, a California Institute of Technology economist who cowrote the Wisconsin survey.

STEADY DRUMBEAT. Just look at the figures on job cuts. Mass layoffs—those involving 50 or more people at a single work site—rose 4% in the last quarter of 1996 over the same quarter of 1995, to 4,480 instances, according to a Bureau of Labor Statistics (BLS) survey released on Mar. 20. The number of workers involved climbed 2%, to 459,000.

Statistics for early 1997 show the same trend. Job cuts in February were 20% higher than in February, 1996, according to Challenger, Gray & Christmas Inc., a Chicago outplace-

ment firm that tracks layoff announcements. On Mar. 14, for instance, H. J. Heinz Co. said that it plans to slash 6% of its worldwide workforce as part of a restructuring (table).

The steady drumbeat of layoffs keeps many workers anxious. Yes, a low unemployment rate and strong job growth have boosted consumer confidence, according to the Conference Board. But the New York business group doesn't specifically ask workers how secure they feel their jobs are, as the Wisconsin survey does. Every three months, the latter asks a random national sample of employees: "What do you think is the percent chance that you will lose your job during the next 12 months?" In the most recent period, ending in January, the average re-

WHO'S CUTTING BACK

COMPANY	JOB CUTS	ANNOUNCEMENT DATE
BEST PRODUCTS	10,000	NOV. 96
AETNA LIFE	8,200	OCT. 96
SUNBEAM	6,000	NOV. 96
WELLS FARGO	3,800	DEC. 96
APPLE COMPUTER	4,100	MAR. 97
H.J. HEINZ	2,500	MAR. 97

DATA: CHALLENGER, GRAY & CHRISTMAS INC., BUSINESS WEEK



LAYOFFS AHEAD: Heinz is going to cut 6% of its workforce

sponse was 17.5%, vs. 16% a year earlier.

Such layoff fears are likely to keep wage hikes subdued even if the economy continues to strengthen. "Companies are using downsizing to control wage pressures," says John A. Challenger, executive vice-president at Challenger Gray.

AT&T exemplifies the pressures workers face. Although the company's net employment rose by 2,000, to 130,000 last year, it still whacked 8,000 jobs. Many were operators being re-

placed by voice-recognition technology. AT&T has dumped 55% of its operators since 1990. "The decline will continue," says AT&T spokesman Burke Stinson.

DOWNWARD MOBILITY. That spells job anxiety for folks like Cindy Belanger, 41. An AT&T operator in Plymouth, Mich., she has 24 years experience, a 5-year-old child, and a machinist husband. What she lacks are specialized skills or post-secondary schooling. So even though jobs are plentiful, Belanger knows she's unlikely to match her current salary of \$610 a week. "I'll be working two jobs at least if I lose this one," she says.

Her fears aren't misplaced. Only three-quarters of workers who lose a permanent job find any kind of new job within three years, according to an analysis of BLS data by Princeton University economist Henry S. Farber. And on average, the new positions pay 14% less than the old ones. "It's clear that if you lose your job, you're likely to lose income," says Farber.

Greenspan was eager to head off overheating before it happened. But with the job market still in turmoil, his move probably was unnecessary.

Bernstein is *BUSINESS WEEK's* Workplace Editor.

T'S NO DREAM CONTRACT, BUT IT BEATS A STRIKE

Why American's pilots are heading toward settlement

It won't be pretty, and it probably won't be quick. But in the end, pilots at AMR Corp.'s American Airlines Inc. are likely to approve a new contract, even though it falls well short of their demands. The Allied Pilots Assn.'s board stepped a vote on Mar. 22, insisting that final contract language be in hand by Apr. 3. But sources on both sides predict that the accord will pass when the APA and American meet on Apr. 3.

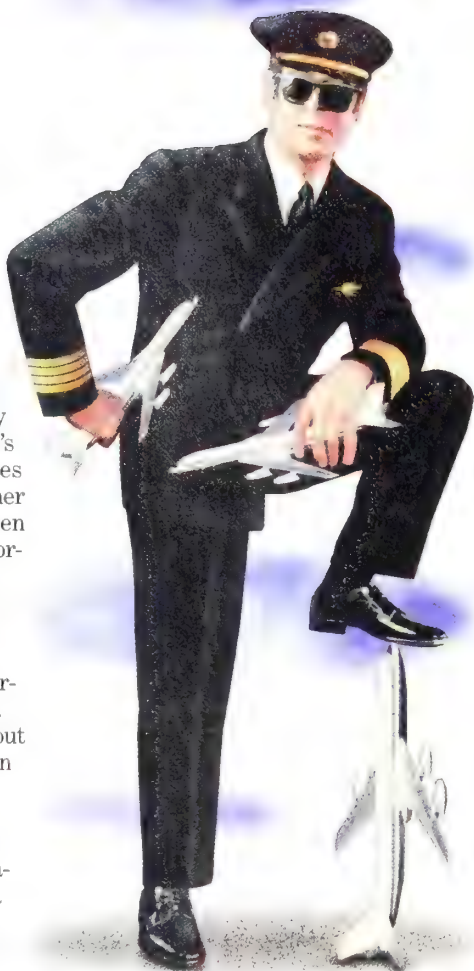
American's pilots have good reason to settle this time and avoid a walkout like the one that briefly shut down the nation's No. 2 carrier on Feb. 15. For starters, if they reject this deal, Congress may impose a less favorable one. The Presidential Emergency Board Clinton appointed after the strike recommended a deal that the union values at less than the new one.

HIGHER BAR. Another key factor: Union president James G. Sovich and all five members of the union's negotiating committee are solidly behind the contract. Indeed, in a conciliatory move on Mar. 22, the union agreed to wait 30 days before striking if the board or the members turn down the deal. "It's black-and-white the best contract in the industry," says Brian A. Mayhew, chairman of the negotiating team and a hard-liner who had fought the first contract, which was negotiated last September. That deal was rejected by more than 60% of the rank and file on Jan. 8. The union can claim victory on the negotiating front, where it has set a higher bar

for everyone in the industry. Leaders figure they squeezed about \$180 million—or 43%—more than the rejected deal from a company that said there was no more to give. "What American has to hope for is everybody else [in the industry] gets a deal that's as bad or worse," says BT Securities Corp. analyst Vivian Lee. On the other hand, productivity gains should soften the blow for American and hold labor-cost increases below inflation, says Adam Blumenthal, a financial consultant for the pilots. American sources call the deal, which includes a 9% pay raise—in four yearly increments—"marginally" more expensive than the last.

Still, the new deal won't pass without a fight. It doesn't grant pilots' main demand: that they be allowed to fly the new generation of small jets that parent AMR wants to introduce in its Eagle commuter operations. Eagle pilots earn less and belong to a different union. Under the proposed contract, AMR wins the right to use Eagle pilots to fly the small jets, following the pattern already established in the industry.

Union negotiators argue, however, that while they didn't win on the small-jet issue, they wrung as many promises out of American as possible. For instance, the proposed pact places a limit on the routes that Eagle can fly with the 50-to-70-seat jets, including a 550-mile average flight length. And further to allay fears that AMR will use the regional jets—and Eagle



pilots—to replace big jets, the company promised to cut one Eagle jet for every two big jets if the American big-jet fleet falls below 628 planes.

AT THE TOP. The pact also offers a novel form of job security. Some Eagle regional jet pilots may be bumped by American pilots if the main airline furloughs workers. In return, Eagle pilots get first dibs on half the new jobs at American.

APA critics contend the job-security provisions are just window dressing. They "will not protect our flying. They will only serve to reduce the magnitude of the [job] loss," predicts union board member Dan Carey, chairman of the union's New York unit.

Still, the no votes are likely to be in the minority. Most members will probably be happy to settle for a contract that would put American pilots at the top of the industry pay heap and eliminate a detested two-tier wage system that pays less to new pilots. And the small-jet threat is still just a threat, while the reality of a costly strike hit home—briefly—in February. For better or worse, both sides may finally grab this deal as the best they can get.

By Wendy Zellner in Dallas

WILL THIS DEAL FLY?

The proposed settlement gives something to each side:

COMPENSATION A 9% pay increase, coming in four increments through August, 2001. American will give pilots options on 5.75 million shares priced \$10 below market. Lower wage scale for new hires will be phased out.

REGIONAL JETS An AMR Eagle unit represented by a different union will fly American's regional jets. But if the big-jet fleet falls below 628 planes, American must remove one regional jet for every two big jets it cuts.

JOB FLEXIBILITY An innovative 10-year deal allows furloughed American pilots to move to jobs at Eagle. Eagle jet captains may get first crack at big-jet jobs. American must hire one Eagle pilot for every two new hires.

FLEET LIMIT The regional jet fleet is capped at 67 for the life of the contract. Regional jet trips will average 550 miles.

JOB SECURITY Pilots on the seniority list on the date of signing won't be furloughed during this contract.



TRANSPORTATION

TWA IS CARRYING SOME HEAVY BAGGAGE

New CEO Gitner faces big losses and an angry union

It's hard to envy Trans World Airlines Inc. CEO Gerald L. Gitner. Even before he assumed the top job permanently on Feb. 12, after acting as chief since December, the airline's largest union was calling for his resignation. While every other major airline posted hefty profits in 1996, TWA lost \$259 million on revenues of \$3.6 billion. And on Mar. 25, TWA's auditors expressed doubts about the airline's ability to continue as a going concern.

Gitner, a longtime board member who retains his job as head of investment banking firm Avalon Group Ltd., acts as if it's no big deal: "It goes with the territory. Nobody ever said it was going to be easy." True enough, but Gitner, 51, may find the job even more daunting than did the three CEOs who have come and gone since a bankruptcy ended raider Carl Icahn's ownership in 1993.

This CEO faces problems that his predecessors didn't. Employee unity—which kept the St. Louis-based airline alive through two bankruptcies and last sum-

mer's Flight 800 tragedy—is crumbling. Workers have gone without raises for a decade, and now, two major unions are in opposite camps: pro- and anti-Gitner. "They can't fight an internal battle and a battle for survival at the same time," predicts Michael J. Boyd, president of Aviation Systems Research Corp. in Golden, Colo.

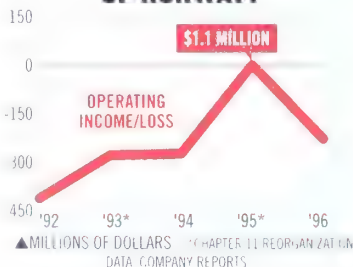
TWA has almost no margin for error.

Its cash position has shrunk to a meager \$182 million, down from \$304 million a year ago. Costs for maintenance are soaring. And while airline travel overall is up, consumers are still spooked by the as-yet-unexplained TWA crash off Long Island. The airline's passenger revenue declined by 1% in

the fourth quarter; to \$687 million. What's more, TWA's union contracts come up for renewal in September. And employees, who have traded wage concessions for 30% of TWA's equity, are no longer willing to postpone meaningful raises.

Getting TWA's unions on his side may be Gitner's toughest problem. In early February, leaders of the International

TWA: RUNNING OUT OF RUNWAY?



WORK TO DO

A mechanic at TWA's hub in St. Louis; union workers are expecting sizable raises

Association of Machinists (IAM) publicly labeled Gitner unqualified because he lacks operating experience, calling for him to step down. On Feb. 27, the IAM gained momentum when it won a contentious

election to represent TWA's 5,200 flight attendants. The machinists now represent 80% of TWA's workforce and have three board seats.

OUTSIDE INTEREST. The IAM has its own ideas about how to run the troubled airline. It has been trying to find an investor to buy TWA and bring in new management. In December, when Gitner became acting CEO, IAM members flooded TWA's board with thousands of faxes urging that the top job go to Jonathan Ornstein, the head of Brussels-based Virgin Express. Ornstein, who has ties to the David Bonderman investor group, which controls Continental Airlines Inc., had approached the IAM with a reported \$150 million proposal to recapitalize TWA. "TWA is a very interesting situation, and with the right ingredients, it could be fixed," says Ornstein. Says William Scheri, the IAM's airline vice-president: "We're always interested in people who want to bring money into TWA and turn around the airline."

While the Ornstein deal never resulted in a concrete offer, it caused a rift with the TWA pilots, who back Gitner. "My money is on Gerry Gitner at the moment," says Don Jacobs, head of TWA's Air Line Pilots Assn. The investors who are flirting with the IAM are "vulture capitalists," he says, who want to buy TWA for almost nothing. Gitner says he takes the IAM's move philosophically: "I can't stop it, so I can't let it bother me."

Meanwhile, Gitner is doing what he can to smooth things over. On Mar. 2, he flew to Washington for a meeting requested with Scheri, which Gitner says was at least cordial. And Gitner is visiting TWA's bases around the country to meet with rank-and-file workers.

Airline experts have been predicting TWA's demise for years. And '97 looks like another touch-and-go year. The latest snag: That alarming auditors' report could halt a \$50 million private placement TWA has in the market. Still, Gitner insists the downsizing is over for now. And given forecasts of a strong summer travel season, TWA could rebound in '97 if employees stay on board.

By Susan Chandler in Chicago



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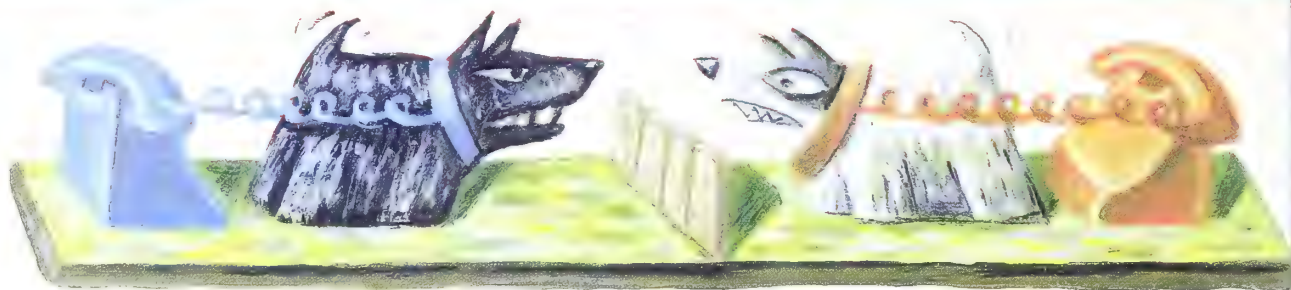
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COMMENTARY

By Peter Elstrom

LET THE TELECOM DOGFIGHT BEGIN

Have you noticed much change in your phone service since the Telecommunications Reform Act was passed a year ago? Don't worry. Nobody else has, either. Letting local and long-distance companies compete in each other's businesses will eventually mean lower prices and increased choice. But competition is being delayed by endless disputes between companies that seemingly would rather fight it out in the hearing room than in the marketplace.

That leaves most consumers with the same choices—and prices—they had before “deregulation.” Faced with high costs and other obstacles, long-distance companies are moving slowly into local service. AT&T resells local calling in only a handful of test markets, and MCI Communications Corp. has focused its local efforts on business customers. Meanwhile, the Baby Bells can't offer long-distance service until they prove that they face effective competition in their markets. So far, not one Bell has been able to prove that to regulators' satisfaction.

MORE CLOUT. What's the cost of this standoff? No one knows exactly. But in the local market alone, competition could cut costs by 20%, which amounts to \$50 million a day, estimates industry consultant Andrew Seybold.

It's time to cut the red tape and let true competition begin. Here's one way: Give state regulators the power to impose severe penalties on companies that thwart competition. Provided with that extra clout, regulators could let companies into new markets more quickly—knowing that

they have an effective recourse in case of wrongdoing.

It's understandable that state and federal regulators have been reluctant to let the Bells into long distance. Several of them have revealed their anticompetitive tendencies by dragging out negotiations over letting new entrants resell their calling capacity. One recent trick is for Bells to force local competitors to fax them orders when customers want to change carriers: The faxed orders often are delayed or full of errors.

Clearly, Bells that deliberately

**Competition could cut
local costs by 20%,
or \$50 million a day**

block local competition deserve to remain barred from long distance. And state regulators should continue to make sure that the Bells comply with a 14-point checklist mandated by the Federal Communications Commission. Among other things, the FCC says that local incumbents must offer newcomers access to their local-calling networks at fair prices.

Sometimes, though, determining whether a local phone company has cleared all the hurdles is a judgment call. So to speed up deregulation, it makes sense to find ways to let competitors get into new businesses easily—while giving the authorities the power to swiftly punish anticompetitive practices.

Illinois is ready to try this ap-

proach. A bill passed by the state Senate in late March gives the Illinois Commerce Commission power to fine phone companies, including Ameritech Corp., for anticompetitive behavior. The financial penalties the commission can impose have jumped to \$30,000 per day per violation, up from \$2,000. Says Patrick O'Malley, the Republican state senator who sponsored the bill: “You need teeth in the enforcement mechanism.”

BROAD SUPPORT. Georgia's state senate recently passed a similar bill. It increases fines to \$15,000 initially and \$10,000 per day per violation—up from \$1,000 and \$500, respectively, now. Many other states, in contrast, cannot even fine the Bells for acting anticompetitively. Colorado regulators, for example, must get court approval before they can impose any financial penalty.

The Illinois law has won broad support among telecom companies. AT&T, MCI, and Sprint have all publicly backed it. AT&T's top executive in Illinois says he'll recommend using the bill as a model in other states that want to speed up competition. Even Ameritech supports the legislation, arguing that the penalties won't matter because it will play fair. “It's a good solution to put in safeguards to satisfy the skeptics,” says Peter Vujaklia, vice-president at Mercer Management Consulting. If the skeptics are satisfied, telecom customers can start seeing the savings that have only been a promise for more than a year.

Elstrom covers telecommunications from BUSINESS WEEK's Chicago bureau.



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MARKETING

MICHAEL JORDAN'S FULL CORPORATE PRESS

His Airness wants his sponsors to make deals with each other

The television spot for WorldCom Inc. plays off a simple joke: Basketball superstar Michael Jordan, having signed up as spokesman for the No. 4 long-distance company, finds out that as part of the deal, he's expected to cold-call consumers to get them to switch carriers. The spot ends with Jordan on the pay phone in the locker room, plowing dutifully through the phone book.

Turns out it's no joke. Jordan has been doing some high-level pitching for WorldCom to a select group of executives—at the large companies that are also his sponsors. It's a gold-plated prospect list that includes Nike, McDonald's, Quaker Oats, Sara Lee, and Wilson Sporting Goods. Their corporate business would be a boon to WorldCom, which at \$5.4 billion in annual revenue trails far behind the long-distance Big Three: AT&T, MCI Communications, and Sprint.

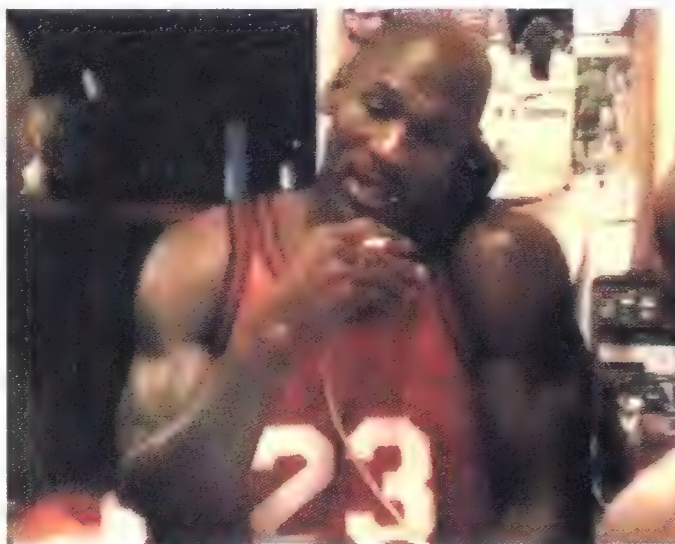
EXTRA VALUE. Jordan's efforts represent the latest twist in the marketing strategy devised for him by agent David B. Falk. The idea: If Jordan makes a personal effort to generate business for his sponsors, his value as a spokesman will increase—along with the price he can command for future endorsement deals. "Our job is to use Michael's influence to explain the synergy" possible between sponsors, says Falk, who calls this push "Michael Jordan's Corporate Partner Program." With many of Jordan's endorsement deals extending as far as 10 years in the future, Falk predicts that three or four Jordan sponsors eventually will hook up with WorldCom. And World-

Com says it would be interested in hooking up with other Jordan partners. "It's a logical network, isn't it?" says a spokeswoman.

The prototype for this network was Jordan's 1996 hit movie, *Space Jam*. Every Jordan sponsor got a plug in the animated flick just for being associated

MULTIPLICITY MARKETING

Michael Jordan has a plan to maximize his income from endorsements as his basketball career ends:



BUILD A BRAND

Jordan is now a "superbrand," having limited his endorsement deals to a handful of large corporate sponsors, including Nike, WorldCom, and McDonald's.

PROMOTE

Corporate sponsors work together to maximize the value of promotional events. For example, Jordan's movie, *Space Jam*, plugs each of his sponsors.

CROSS-SELL

Jordan persuades his sponsors to buy from each other. The first step: Asking other companies with Jordan deals to switch long-distance service to WorldCom.

with him. Now Falk envisions all sorts of deals that his star could help put together. He figures Jordan might persuade WorldCom to insert McDonald's coupons in its mailings, or get Sara Lee's Coach leather-goods unit to promote sales of backpacks by offering samples of Bijan Fragrances' Michael Jordan cologne.

With Jordan, 34, nearing the end of

his playing career, adding a little extra juice to his endorsement deals makes sense, say marketing gurus. "Falk has been innovative in so many ways with Michael," says David Burns, founder of Chicago-based Burns Sports Celebrity Service Inc., which matches athletes with advertising agencies. The agency, for example, has limited the star's endorsements to around a dozen major companies, which together pay Jordan an estimated \$40 million a year. However, even Falk concedes that he's unlikely ever to find another athlete who matches Jordan's nearly universal appeal—and whom he can turn into what he calls a "superbrand."

So far, however, the synergy among sponsors remains theoretical. Just because Michael Jordan is coming calling, major corporations such as Quaker and Nike are unlikely to switch their huge phone contracts. "I doubt it will have much, if any, influence on a decision that could not be independently rationalized and supported," says marketing consultant George Rosenbaum of Chicago's Leo J. Shapiro & Associates. Quaker already has turned Jordan down. "MCI is our long-distance carrier. We're sticking with them for the foreseeable future," says spokesman Ron Bottrell. Similarly, Nike sees little potential for cross-pollination. "Fundamentally, our business objectives are different than any other of Michael's partners," says Erin Patton, Nike's director of basketball products and marketing.

Falk admits that Jordan can't force his sponsors to change vendors, but he believes they will eventually come around. "It's in everyone's interest to do this," he says. And some Jordan-inspired cross-promotional activity is in the works. In WorldCom's summer ad campaign,

actors will wear Oakley sunglasses, endorsed by Jordan, and outfit from Wilson. And Falk is pushing corporate partners to put their logos on WorldCom phone cards.

If Jordan can't start making sales, he might try some incentives—like playoff tickets for CEOs. Now that would be real synergy.

By Susan Chandler in Chicago

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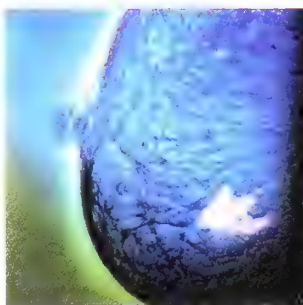
Will new evidence lead to earlier mammograms?

Women in their 40s who are unsure about whether to get mammograms can be forgiven their confusion. The medical community seems to be equally at sea: The debate has gone back and forth for years. Now, taking on the National Cancer Institute (NCI), which does not recommend regular mammography for low-risk women in their 40s, the American Cancer Society (ACS) on Mar. 24 called for yearly screening.

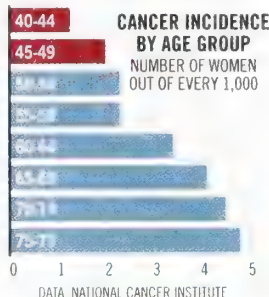
If women follow the ACS recommendation, it will represent a big change—medically and financially. Experts say the up-front costs of mammography for women in their 40s could run as high as \$850 million. In terms of “cost per year of

life saved”—a figure used to determine the cost effectiveness of a treatment—having an annual mammogram from age 40 to 79 would cost \$18,800 per year of life saved, well above the \$10,000 for coronary bypasses. In the long run, though, added screening could make economic sense if enough cancers are detected and treated early.

Indeed, some businesses don't have to be convinced of the cost-effectiveness of early screening. Zeneca Pharmaceuticals bought its own mammogram machines and offers all women employees annual screening at the workplace. It figures it may have saved \$1.1 million over seven years by detecting and treating a dozen cancers early. Adolph Coors Co. and Rite Aid Corp. also have on-site programs.



THE AGE FACTOR



CANCER WATCH: More testing may save lives

Even some cost-conscious insurers are starting to cover early screening. U.S. Healthcare, one, will cover annual mammograms for women 40 to 50 if a woman has a high risk or if a physician requests it. But U.S. Healthcare and its peers are taking a wait-and-see approach on yearly mammograms for all women in their 40s.

Several studies led the ACS to change its recommendation, including a recent Swedish study that showed a 44% reduction in deaths among women 40 to 49 who have yearly tests—a definite benefit.

It's too bad for women the medical community isn't equally clear.

By Naomi Freundlich in New York with John Carey in Washington

SOFTWARE

A FIGHT BREWING OVER JAVA

Will Microsoft or Sun win over Java programmers?

At least a quarter-million software developers are working on programs written in Sun Microsystems Inc.'s Java language—creating programs that can zip across the Internet and run on any kind of computer. Unfortunately for Sun, Java's popularity has put it squarely in the sights of mighty Microsoft Corp., which now aims to wrest control of Java from Sun. **FORK.** The contest could boil over at the beginning of April. At separate conferences across the street from each other in San Francisco, Microsoft Chairman William H. Gates and Alan Baratz, president of Sun's JavaSoft unit, will promote widely divergent visions of Java's future (table).

“This is a battle for the future of software—and ultimately, the future of hardware,” says Nova Spivack, executive vice-president of EarthWeb LLC, which runs a Java-program Web site.

Java programs run on any machine or operating software, not just on personal computers running the Windows operating system. They're used in half of the largest U.S. corporations, according to Forrester Research Inc. J.P. Morgan & Co., for instance, has a Java program that calculates the prices of options.

That makes Java a distinct threat to Microsoft. Its cash-cow applications such

as Office 97 depend on the pervasiveness of Windows, which could be eroded if Java catches on. So Microsoft is pushing hard to lash Java tightly to Windows. One tactic: producing a software “engine” that makes Java programs run fastest on Windows. Some software developers suggest that Microsoft is adding so many nonstandard refinements that it will turn Java into its own, proprietary product.

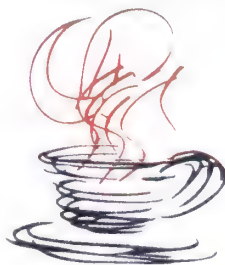
In December, Sun marshalled Oracle Corp., Netscape Communications Corp. and 70 others to support “100% Pure Java.” These companies have pledged to avoid tying Java programs to specific software and hardware. At the JavaOne conference Baratz will outline plans to speed up Java programs and other steps to counter Microsoft.

But across the street Gates will be trotting out enhancements to Microsoft's version of Java—wooing developers with offers of financial and technical help. For Sun, says International Data Corp. analyst Evan Quinn, “it's a race against time”—and Gates.

By Robert D. Hofmann in Cupertino, Calif.

Two Visions of Java

TO SUN MICROSYSTEMS it's a quick way to create programs that run anywhere on a network—not just on computers using Microsoft's Windows operating software. Sun and partners such as Oracle hope to establish Java as an alternative “platform” to Windows.



MICROSOFT dismisses the Java threat, saying it lacks the industrial strength to be trusted for “mission-critical” applications. Acknowledging the popularity of Java, however, Microsoft has endorsed the Sun product—as a programming language for Windows-based computers.

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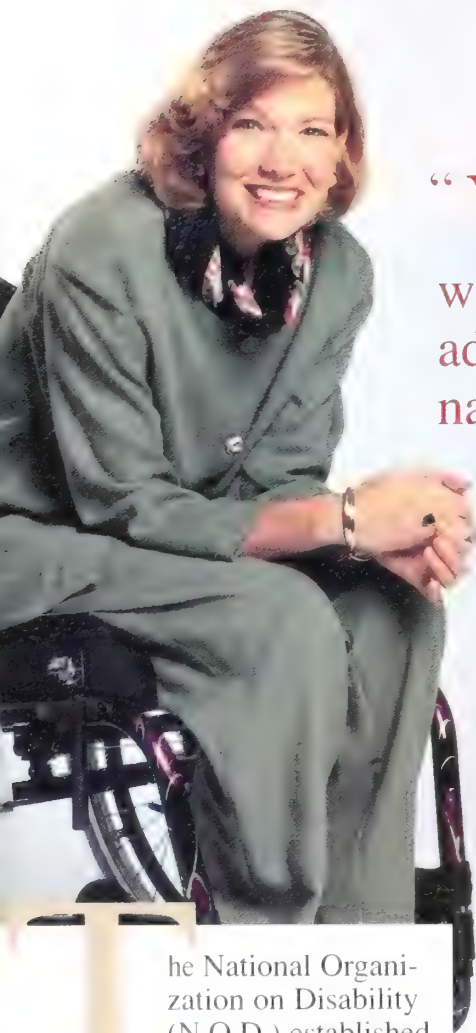
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EDITED BY KELLEY HOLLAND

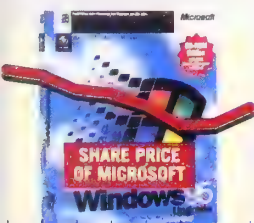
CLINTON SEEKS CHECKSEAT DRIVERS

FOR AN AUTO SUMMIT. s of the Big Three U.S. makers are scheduled to t with President Clinton he White House on Apr. BUSINESS WEEK has ned. The wide-ranging nda includes economic, ty, and trade issues. ong them: Detroit's cons about the cheap Japan- yen and its impact on the petitivity of American . Other topics will include ral emissions standards, belts, and air-bag safety. te House officials say the ting is part of President ton's ongoing attempts to k the advice of business lers on his second-term nda. The President has

CLOSING BELL

SOFT LANDING

icrosoft rarely makes a mis- ep—so when it does, estors move fast. On Mar. , it said the new version of ndows wouldn't be ready in e for the fall personal- mputer selling season. As result, Microsoft's stock opped 3%, to 90%, on a day e Dow rose 100 points. But s delay may not hurt icrosoft much, since ana- ts had not expected a big mp in Windows sales this ar anyway. And sure ough, investors pushed icrosoft's stock back up to % on Mar. 26.



MAR 17, '97 MAR 26
DATA: BLOOMBERG FINANCIAL MARKETS

met with other business lead- ers, but usually to discuss topics such as education and welfare reform.

GLASS CEILING AT HOME DEPOT?

HOME DEPOT MAY NEED TO do some home repairing of its own. On Mar. 24, the Equal Employment Oppor- tunity Commission moved to intervene in one of three sex-discrimination lawsuits against the company. The EEOC is interested in a 1995 case filed in New Orleans by female employees represent- ing victims of alleged dis- crimination in 310 Home De- pot stores. Meanwhile, a class action in California cov- ering more than 17,000 cur- rent and former female em- ployees in the retailer's West Coast division is due to go to trial in September. A third lawsuit, which has not yet received class-action sta- tus, alleges discrimination in the nine-state Northeast di- vision. Home Depot denies any wrongdoing and says it will "vigorously oppose intervention."

MCI GOES POSTAL

MCI COMMUNICATIONS LANDED a big one on Mar. 26, when it snagged a contract with the United States Postal Service worth up to \$3 billion. The deal could be MCI's largest contract to date and is guar- anteed to be worth a mini- mum of \$100 million. Under the contract, MCI will estab- lish and run a telecommuni- cations network for the post office that will connect up to 34,000 post offices around the country. The win could take the sting out of losing another major contract. On Mar. 10, Kmart switched its long- distance and data-communi- cations business, worth about \$43 million a year, to AT&T.

HEADLINER: MARY SCHIAVO

FREELANCE GADFLY

Mary Schiavo is excellent at inspiring fear of flying. The Transportation Dept.'s former inspector general, who resigned in protest in 1996 over the quality of federal air- safety manage- ment, has re- leased a scathing indict- ment of the Feder- al Aviation Adminis- tration that bolsters critics' worst fears. Her book, *Flying Blind, Flying Safe*, charges that the FAA ig- nores its own safety rules.

Schiavo, 41, has had sev- eral run-ins with her for- mer employer. As inspector general, she led investiga- tions into the FAA's lax oversight of ValuJet before

its 1996 crash in Florida, the use of counterfeit air- craft parts, and the FAA's inadequate security stan- dards at U.S. air- ports. "The FAA is not the tough watchdog it needs to be," she says. "It's time to make changes."

Her headline- grabbing style has won Schiavo a lot of ene- mies. "She likes to throw bombs," gripes one congres- sional staffer. But will she slow down? Sources say Schiavo, a native Ohioan now teaching at Ohio State University, may soon run for office. FAA officials, fas- ten your seatbelts.

By Christina Del Valle



A HOUSE CALL FOR COLUMBIA/HCA

FEDERAL INVESTIGATORS ARE giving Columbia/HCA a thor- ough examination. Agents from the FBI, the Internal Revenue Service, and the De- fense Dept.'s Criminal Inves- tigation Service have raided Columbia's El Paso, Texas op- erations and removed scores of boxes of records and docu- ments. Sources say the probe focuses on how Columbia/HCA pays doctors for referring pa- tients to its hospitals. The company says that allowing doctors to invest in its hospi- tals and clinics gives them a stake in how the hospitals treat patients.

MURDOCH WANTS THE KIDDIES, TOO

RUPERT MURDOCH CERTAINLY is in an acquisitive mood. Just days after announcing a \$1.4 billion deal to buy Heritage

Media, a broadcaster and pro- ducer of supermarket coupons, and a failed attempt to buy Pointcast, News Corp. is said to be considering a bid for telecleric Pat Robertson's In- ternational Family Entertain- ment. The attraction: the com- pany's widely distributed Family Channel, seen in nearly 60 million homes. Murdoch has made no secret of his plans to get into children's programming and take on Vi- acom's Nickelodeon and Time Warner's Cartoon Channel.

ET CETERA...

- Motorola won a \$1.5 billion contract to supply cellular phones in Japan.
- Average HMO copayments for doctor visits more than tripled from 1987 to 1993.
- IBP is buying Foodbrands America for \$640 million in cash and assumed debt.
- Humongous Entertain- ment has a TV deal with Lancit Media Entertainment.

Monday:

Find that expense report from 1993
(the one with the little white lie in it)

Wednesday:

Search through records to
find receipts justifying
expenses. Stand in line to
use the fax machine. Curse
the AP department.

Thursday:

Spend six precious hours retyping
budget proposals that will probably
get rejected, anyway.

TODAY:

Buy PaperPort Deluxe Software and
save up to \$40 on a Visioneer PaperPort
or Microtek ScanMaker[®] scanner!

Tuesday:

Sort through 1996
paperwork. File some
documents. Photocopy
others. Recycle the
originals. Repeat
process until desk is
recognizable.

Friday:

Organize marketing research,
memos, and sales projections by
client, product, and quarter.

Weekend:

Find, retype, and e-mail that newspaper
article about the competition to the sales
team—in France.

Monday, again:

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and the entire corporate marketing department.

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EDITED BY OWEN ULLMANN

FIRESTORM ON THE HILL COULD SEAR CLINTON'S CHINA POLICY

Vice-President Al Gore walked a fine line during his recent visit to Beijing. Despite the Donorgate campaign-finance scandal that has cast a harsh light on Asian business deals, Gore joined Chinese Premier Li Peng at a Mar. 25 signing of car and plane contracts worth \$2 billion for General Motors Corp. and Boeing Co. But while reassuring China of Clinton Administration's commitment to stable ties, Gore also hinted of a possible rupture if allegations of illegal Chinese campaign contributions prove true.

Gore's balancing act reflects trouble back home in Congress. A broad backlash against Clinton is in full swing. Emboldened by Donorgate, critics on the GOP right and Democratic left are stepping up efforts to punish China for human rights, trade, and security abuses.

BACKING AWAY? The "demonization of China" as a top Clinton Administration official fearfully puts it, threatens to undo a year of diplomatic fence-mending. "It's beginning to have an effect on policy," concedes an Administration Asia hand. "There's a concern that we are watering down, backing away."

Examples: The Clintonites have shelved plans to lift restraints on U.S. high-tech exports and likely will postpone until 1998 plans to ask Congress for permanent most-favored-nation trade status for China, despite lobbying efforts by business. And U.S. negotiators will be under intense pressure to wring tough terms from Beijing in exchange for membership in the World Trade Organization (page 52). Says

Washington consultant with close ties to the White House: "You can smell the Administration's fear." Beijing's anxiety over the firestorm won't be eased by House Speaker Newt Gingrich's decision, under pressure from GOP conservatives, to drop Taipei to his Mar. 24-Apr. 2 trip to Asia. Meanwhile, House Minority Leader Richard A. Gephardt (D-Mo.), a likely Presidential contender in 2000, has introduced a bill to re-

quire congressional approval of China's WTO membership.

Lawmakers aren't stopping there. The House has passed a bill that would put pressure on the President to sanction Beijing if it bullies Hong Kong after taking control on July 1. And Representative Duncan Hunter (R-Calif.) is pushing a bill to bar a shipping company partly owned by the Chinese military from leasing a terminal at Long Beach, Calif.

U.S. executives in Asia are appalled. "We're frightened at the prospect of a new cold war initiated over an ideological

frenzy and domestic political concerns," says William H. Overholt, managing director of Banker's Trust Asia Ltd. in Hong Kong. So U.S. business is girding for a fierce battle over President Clinton's annual review of China's MFN, due June 3. It was supposed to be a cakewalk because of warming U.S.-China ties. But now, the political calculus has changed. The religious right and economic nationalists such as former GOP Presidential contender Patrick J. Buchanan vow to make the MFN vote a litmus test of conservative virtue. And China's alleged influence-buying has normally pro-MFN lawmakers wary of taking stands that could be construed as pro-Beijing. "Everyone's on tenterhooks," says a corporate lobbyist in Washington.

The upshot, says one pro-MFN Democratic House member: "20 to 30 members have changed their positions against MFN or are considering doing so." Among them: Representative Bill Paxon (R-N.Y.), a House Republican leader. There won't be enough anti-MFN votes to override a certain Clinton veto, but the Administration doesn't relish defending a strong pro-China position on the eve of Donorgate hearings. That's why business is going all out to ensure Clinton resists pressure to hit the brakes on U.S. engagement with China.

By Amy Borrus, with Stan Crock and Joyce Barnathan in Hong Kong



GORE AND LI: *In Beijing*

CAPITAL WRAPUP

THE GORE-GEPHARDT SQUEEZE

The Donorgate scandal hasn't derailed Vice-President Al Gore and House Minority Leader Richard A. Gephardt (D-Mo.) from trying to line up early financial support for their expected bids for the Democratic Presidential nomination in 2000. Each is pressing House Democrats to commit their political action committee fund-raising machines to a White House campaign. The rivalry is causing tensions for lawmakers who favor Gore but have to work with Gephardt.

LAYOFF-PAYOFF CUTOFF?

► The defense industry frets that Congress will end Pentagon reimbursement of restructuring costs stemming from mergers of weapons makers. The Administration likes the four-year-old program, claiming it has saved \$4 billion in weapons contracts at a cost of \$720 million to underwrite corporate streamlining. But last year, lawmakers curbed the "payoffs-for-layoffs" program. Now a bipartisan coalition out to abolish "corporate welfare" is pushing to end the payments entirely.

CABLE COST-SHIFTING

► The cable industry has angered Congress over last year's 8% rate hikes, but some lawmakers are sympathetic. Representative W.J. (Billy) Tauzin (R-La.), head of the House telecommunications subcommittee and a recipient of cable campaign money, plans to hold hearings on skyrocketing television programming costs. The cable guys blame those expenses for higher rates. The industry hopes the argument will aid its uphill lobbying campaign for tighter regulation of satellite-TV competitors.

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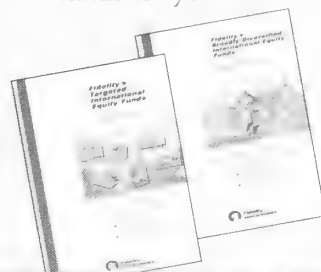
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CHINA

SLOW DANCE WITH THE DRAGON

Despite progress, prospects are fading for China's swift entry into the World Trade Organization

After years of wrangling, U.S. trade officials returned from another round of talks in Geneva in early March full of hope that an agreement for China's entry into the World Trade Organization finally was falling into place. Beijing relented on dozens of U.S. demands on market access, including a promise to let foreign exporters sell in China without going through state-owned intermediaries. The Chinese even hinted they wanted to wrap up a deal in time for President Jiang Zemin's summit with President Bill Clinton late this year.

Sounds bullish, but the optimism isn't likely to last. True, a WTO agreement would be a diplomatic victory both for the White House and for Jiang. But faced with the daunting task of retooling a command economy dependent on trade protections and on the brink of a financial crisis, Chinese negotiators are in-

sisting on a 10-to-12-year grace period for meeting WTO terms. That would be difficult for the Clintonites to sell in the U.S., where the ballooning \$39.5 billion trade deficit means market access in China is getting to be an urgent political priority.

Worse, talks that were proceeding nicely in low-key diplomatic channels are now caught up in a maelstrom of congressional politics, joining the Donorgate probe and the annual China-bashing fest over renewal of most-favored-nation trade status. Frets one influential free-trade House Democrat: "I just hope they don't have a WTO accession agreement up [on Capitol Hill] this year."

The Administration desperately wants to keep the delicate trade talks on track. If they drag into midterm elections next year, the politics could get even more complicated. Some U.S. negotiators now think that by bringing the Donorgate hysteria to Beijing's attention, they can strengthen their hand. Fear of an even greater U.S. backlash on trade will soften Beijing to more concessions, they reason. These could include speedier timetables for scrapping industrial subsidies and allowing competition in service

sectors, and "safeguard" clauses that let Washington impose quotas and duties to prevent Chinese imports from flooding U.S. industries in the interim.

But judging from the most recent talks in Geneva, there is a long way to go. The two sides covered half of the issues that the USTR says China must solve before it can enter the WTO. If they were the easy ones. Core areas that remain unresolved include subsidies to state industry, the weak dispute-resolution process in Chinese courts, product standards that discriminate against imports, and access to agricultural markets. Meanwhile, Chinese import duties remain four times as high as those of Japan. And to tap markets such as consumer electronics and automobiles, foreign companies must manufacture locally and transfer key technologies. Service sectors, such as banking, media, and telecommunication are virtually off limits. "The really difficult part begins now," says Konrad Seitz, Germany's ambassador to China. **MONEY PITS.** Even if Jiang and other top leaders sincerely want a WTO deal, there is growing doubt in U.S. policy circles that they'll be able to get market protectionist bureaucrats to implement the terms. The case for freer trade could be overwhelmed by the mess of China's 110,000 state enterprises, nearly half of which lose money. State business siphons off 60% of investment but produces less than 40% of China's output. And because of clumsy central planning and huge inefficiencies, much of what is produced is piling up in inventories that have reached \$65 billion, according to official estimates, or a stunning 8% of gross domestic product.

ockpiles are said to include as many 150 million men's shirts, 20 million bicycles, and 10 million watches.

Chinese officials recently lamented to visiting Commerce Under Secretary for International Trade Stuart Eizenstat that state enterprises would have to lay off 10% of their workers to straighten things out. A torrent of cheap imports could provoke upheaval in a nation where state companies provide jobs, medical care, and pensions to two-thirds of the urban population. With its weak tax system, Beijing can't afford to take over housing, schools, day care, and other services now provided by state companies.

BANK MESS. A looming financial crisis endangers any deal. Anywhere from 10% to 40% of bank loans to the state sector are nonperforming. Yet banks have no loan/loss reserves. Refinancing could absorb two-thirds of government receipts for years, figures Nicholas R. Brady of Washington's Brookings Institution. Letting foreign banks compete for domestic savings could devastate China's banks.

For now, though, Chinese leaders seem intent on WTO entry. Global prestige and permanent MFN status are big reasons, although some truly believe free trade will make Chinese industry competitive. They are supported by some coastal provinces, which account for most of China's exports and want cheaper imported materials and continued access to overseas markets. Chinese leaders "have decided that the opportunities are larger than the challenges," says Hai Wen, deputy director of the China Center for Economic Research at Beijing University.

U.S. negotiators are betting that the free traders will win and be powerful enough to ram WTO terms through the bureaucracy. So they want to keep up the momentum while Beijing is in heel-and-deal mode. For one, they would like to lock in the promises China has made in recent months. And to use the deal, Washington still must sell it to the WTO's other 129 members.

But before China's top leaders risk their political necks over a WTO deal, they'll want to know that the USTR is bargaining from strength. That's not easy when leading members of Congress want to look over the shoulders of U.S. negotiators. The fear is that "paranoia" over China will lead to "an air of animosity that prevents us from saying we've negotiated a good agreement once we've done so," says U.S. Trade Representative Charlene Barshefsky. Crafting a WTO deal will be hard enough, but negotiators for both sides may find selling it at home even tougher.

By Paul Magnusson in Washington, with Joyce Barnathan in Hong Kong

HONG KONG

A RISKY GAME WITH 'RED CHIPS'

Investors bid up stocks with Chinese government ties

In mid-March, Gitic Enterprises, a Guangdong-based construction materials and property company, put up for sale 100 million of its shares at 13¢ apiece, to be traded on the Hong Kong stock exchange starting Mar. 26. The offer touched off a storm. In a buying frenzy, investors oversubscribed the shares by 892 times. They borrowed so much to plunk down as deposits on their bids—a total of \$13 billion—that they sent Hong Kong interbank interest rates soaring by nearly 1½ percentage points. The buying spree added to the mix of euphoria and apprehension in the crown colony



HIGHFLIERS Some companies have dizzying p-e ratios, and little is known about their businesses

as the July 1 date of its reversion to China approaches.

Gitic Enterprises, owned by provincial holding company Guangdong International Trust & Investment Corp., is one of Hong Kong's "red chips"—companies owned by Chinese state ministries or provincial and local governments that are traded in Hong Kong. Since last summer, red chips have been the highest of highfliers. From 170 in late August, ING Baring Ltd.'s Red Chip Index rocketed to 310 by mid-March before easing back to 280 on Mar. 24. Some individual red chips have soared

to dizzying heights: Industrial conglomerate China Everbright International is trading at 500 times its 1995 earnings.

Buyers of Gitic Enterprises are hoping that the company's stock will benefit from a process that has boosted the price of other red chips. Chinese parent companies often sell choice subsidiaries to the Hong Kong red chips on favorable terms. The deals often boost the value of the listed company and produce stock-option windfalls for managers—who are usually the same in both the parent and the red chip.

However, investors in Gitic Enterprises are making a risky bet on such asset transfers, says Peter Churchouse, research director at Morgan Stanley & Co. in Hong Kong. Given the opaque nature of much of China's business practice, "they can have no idea what those assets may be, or what comes with them." If a company is transferred to a red chip complete with liabilities for the package known as the iron rice bowl of worker benefits, it could be a burden on the red chip's earnings.

The buying now seems to be mostly by local Hong Kong investors and mainlanders. A reason is suggested by ING Baring Securities Inc. analyst Alan Butler-Henderson. "Red chips to a certain extent have taken over the role of A-shares and B-shares," he says, referring to shares in Chinese companies that Chinese citizens and foreigners, respectively, are allowed to trade on the Shanghai and Shenzhen stock exchanges. "Chinese investors have the notion that red chips are less susceptible to central government manipulation."

With the handover, these companies seem certain to become an increasingly important part of the Hong Kong stock market. Still, playing with red chips is a risky game. "These companies are so diversified there aren't any analysts or investors who have a firm grasp of what the underlying businesses are," says Peter Perkins, a regional strategist at Daiwa Securities Co. Such talk should scare speculators. But as the Gitic listing shows, there are record numbers willing to keep the game going.

By David Lindorff in Hong Kong



GHOST PLANT: A
Hanbo steel mill
halted in
mid-construction

SOUTH KOREA

THE ICE JUST KEEPS GETTING THINNER

More Korean companies fall, paying the price for steep debt

These are desperate days in South Korea. In an unprecedented move, Ssangyong group, Korea's sixth-biggest *chaebol*, or conglomerate, is looking for foreign buyers for half its carmaking unit, Ssangyong Motor. In last place among Korean auto makers, it has been in the red since 1992 and has debt of more than \$3 billion. So Ssangyong has been trying to lure General Motors Corp. to buy in. And it wants Daimler Benz, which already owns 3%, to increase its share. But insiders say neither Western carmaker is inclined to take the plunge.

Ssangyong is indicative of the disease afflicting Korea's companies: perilously high debt-to-equity ratios caused by borrowing too much too quickly to finance growth (table). Most companies' debt is nearly three times their equity, and for some outfits it's more than 10 times. In the past, speedy sales growth covered excesses. But as Korea's economy slows, the bankruptcies this year of two major *chaebol* have raised the specter of more failures—and it's smaller companies that are most likely to suffer.

BRIBERY. The bankruptcies have chastened Korean bankers and bureaucrats, who have responded by tightening credit and slowing growth in government spending. That, in turn, is likely to trigger even more failures. But it will also

accelerate the badly needed process of industrial restructuring. "These incidents have given companies a good lesson that there's a great risk in borrowing too much," says Han Seung Soo, who stepped down as Finance Minister in early March.

The repercussions of a bribery scandal following the collapse of the Hanbo group in January and the Sammi group in March are extending through politics, threatening to bring down President Kim Young Sam himself. They're also reaching bankers, who are suspected of colluding to extend billions in unsound loans. So there's a backlash against lending. "Bankers are now dead

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SAMMI STEEL*	1.5	6.4
KIA MOTORS	5.6	3.8
DAEWOO ELECTRONICS	3.0	3.5

*Bankrupt

SOURCE: DAEWOO SECURITIES

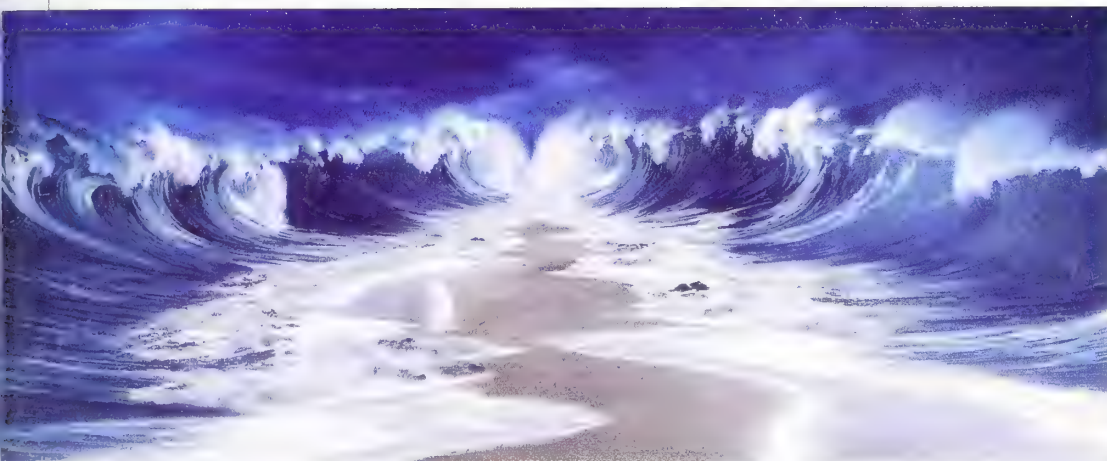
global capital markets. The default rate is rising. In March, an average of 10 companies folded every day in the Seoul area alone, compared with 15 a day last year. "How many companies will go bust is hard to say," said Lee Keun Mo, head of research at ING Barings Securities Ltd. in Seoul. "But firms with poor cash flow and with debt-equity ratios in excess of 10 will suffer."

GETTING SERIOUS. Despite the warnings of last year of grave problems to come, the first shocks hit only this year when the two *chaebol* collapsed. Hanbo, Korea's 14th-biggest conglomerate and No. 2 steelmaker, had \$5.8 billion in debt. The Sammi group, Korea's 26th biggest *chaebol*, cracked under debt of \$2.2 billion. Like Hanbo, Sammi overreached itself. In the late 1980s, the company vaulted into the top ranks of world specialty steel makers by spending \$300 million to buy Atlas Corp. of Canada and Al-Tech Corp. of the U.S. Soon afterward, the market slumped. To keep the group afloat, 7 of 12 affiliates were subsequently sold. But that was not enough.

The demise of further *chaebol* cannot be ruled out. Analysts say that second-tier conglomerates as the Doosan group are vulnerable. Doosan owns Oriental Brewery, a leading beer company with a debt-equity ratio of 10.7.

The country's steps toward fiscal austerity show it is serious about reforming the industrial structure. Seoul has even cut its growth estimate for this year to 5.3% from the 6% rate forecast earlier. That's down sharply from last year's 7.1%. But with so many companies so highly leveraged, the carnage is expected to continue.

By Steven V. Brull in Tokyo, with bureau reports



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BRITISH HIT: *Ralph Fiennes in The English Patient*

BRITAIN

MOVIEMAKERS ARE BACK—BUT WHERE'S THE BIG MONEY?

Without more capital, London will never rival Hollywood

Drive through the rolling countryside of Hertfordshire, north of London, and you're likely to see a film being made. If it's not Stanley Kubrick's *Wide Shut*, starring Tom Cruise and Nicole Kidman at Pinewood Studios, then it could be *Lost in Space* at Epperton.

Britain is abuzz with film work these days. The nine Oscars won by *The English Patient*—a film by director Anthony Minghella, a native of the Isle of Wight, with a largely British cast—are testimony to the revival. Some 123 films were made in Britain last year, up from 107 the year before. "If it weren't for British initiative, *The English Patient* could never have been made," boasts Sydney Samuelson, the British Film Commissioner.

ILLING SHORT. But the British film industry has a long way to go before it rivals Hollywood. Almost moribund in the mid-1980s, it's regaining its health. Total investment was \$1.1 billion last year, two-thirds from 1995, according to trade publication *Screen International*. With labor costs an estimated 20% to 30% lower than in the U.S., and film talent plentiful and largely nonunioned, Britain clearly has advantages. The sticking point is finance. Few if

any British outfits can come up with the \$100 million or more it takes to make a big-budget movie. Minghella, for instance, fell short of raising the \$32 million he needed and had to turn to Walt Disney Co. subsidiary Miramax Films Inc.

That's why Britain largely serves as a location and a postproduction site for big-budget pictures. Most activity is in the Elstree area north of London, where the British Broadcasting Corp. has its studios and where many classics were made. At nearby Leavesden Studios, carpenters are building the sets for George Lucas' new *Star Wars* prequel in a gigantic building where workers once assembled Mosquito bombers during World War II. Leavesden's owner, Malaysia's George-town Holdings, is planning to invest \$320 million on state-of-the-art film facilities, a studio tour attraction, and a housing development.

Lucas has company. Steven Spielberg, who is getting ready to shoot *Saving Private Ryan* at another abandoned

aerodrome in Hatfield, is negotiating with Britain's Defense Ministry over the use of British soldiers for a scene.

Britain may not get the profits from these potential blockbusters. But led by the Anglo-Dutch Polygram and the nonprofit, government-run Channel Four, it's slowly investing more in home-grown films. Last year, 53 films were wholly funded by British sources, compared with an anemic 17 in 1995. Those numbers could jump even further. This coming May, Britain's Arts Council, backed by \$240 million in National Lottery funds, will hand out four franchises to create fledgling film studios. The hope is that Britain can come up with more international hits like *Four Weddings and a Funeral* and *Trainspotting*.

ROCK CONCERTS. In the meantime, the action is supporting a thriving cottage industry of lighting companies, sound and camera people, composers, recording studios, and animators. When they aren't working for Hollywood moguls, these craftspeople can find work on smaller features or in Britain's thriving television industry.

Ronan Willson, for one, is betting that the boom in film production will continue. An entrepreneur who started a business in the 1970s to design lighting for rock concerts, he has sunk \$3.2 million into creating Millennium Studios

in Elstree. A dedicated film buff, Willson started Millennium to provide space for homeless film businesses after MGM shut down Elstree Studios across the street in 1993. Now, he rents space to artisan companies, such as film editors. One set of offices in his rambling building is occupied by the production company for *Basil*, a costume drama featuring international stars Christian Slater and Derek Jacobi.

Britain's cost advantage has been eroded somewhat by the fluctuating pound. To create a true Tinseltown by the Thames, the country must become more than a cheap source of talent and begin funding blockbusters on its own.

By Stanley Reed
and Julia Flynn in Elstree

GLAMOROUS SPENDING



GAZA

YOU CALL THIS A FREE MARKET?

Arafat shares the blame for a Palestinian economy in tatters



All over Gaza, partially built apartment and office buildings rise out of the sandy landscape. In the past couple of years, Palestinians have poured \$600 million into construction and real estate, figuring that peace with Israel would lead to an economic boom. Instead of a buzz of construction around the buildings, there is silence. Peace talks with Israel remain at a standstill, and tensions in the border territories are mounting. The projects' owners, out of money, have abandoned them.

The unfinished buildings represent a Palestinian economy in tatters. Palestinians hold Israel responsible for many of their economic woes. But although much blame falls on Israel's shoulders, it does not rest there alone. While Palestinian leader Yassir Arafat boasts of creating a free market, critics—Palestinian and foreign alike—claim he is running a command economy, dominated by state-run monopolies and choked by corruption and favoritism.

DEAF EARS. It is true that in closing its borders with Gaza and the West Bank, Israel contributed to a 22.7% drop in the territories' gross national product between 1992 and 1996. Yet Arafat himself may be holding the economy hostage. Virtually every major deal requires his

Corruption, favoritism, and state-run monopolies are choking off development and scaring investors

YOUTHS THROWING BOTTLES AFTER THE BORDER CLOSING

personal approval, say investors. And despite pleas from both local and foreign interests, no credible business or investment law has been passed.

Another obstacle to healthy economic development in the territories is monopolies. Since the Palestinian National Authority (PNA) was formed four years ago as the vehicle of self-government, it has allowed the creation of more than 100 exclusive importing agencies. Theoretically independent, these agencies have become sole licensees for importing products from cement to cigarettes to petroleum—and thus have a lock on prices. Now, the agencies' tentacles are spreading into areas from advertising to computers. Not only are they monopolizing certain industries but they are de facto PNA companies.

Most of the big investors who have not shied away from doing business in

the territories have political connections. Created in 1993, Palestine Development & Investment Co. (PADICO) is the largest investor in the territories, with 1,000 wealthy local and expatriate Palestinian shareholders. The company is building \$500 million worth of projects, including a housing complex and industrial park in Gaza and a hotel in Bethlehem. It is also managing the new stock exchange

Nablus and is the largest shareholder in the new Palestinian telephone company. According to Western diplomats and Palestinian sources, the company also has close ties with the PNA. *Wasta*, or bribery, is said to flourish.

The economic mismanagement worries the international community. "The U.S. has made clear that we are concerned about trends that we believe are contrary to developing a healthy private sector," says one U.S. official. At a donor aid meeting in Brussels in December, the PNA pledged to stop granting monopoly licenses and to better organize how it raises money. "We'll see if it actually happens," says the official.

Some foreign investors have broken through the bureaucratic maze. In Nablus, for example, the Akkad textile factory has a contract with Marks & Spencer PLC to manufacture

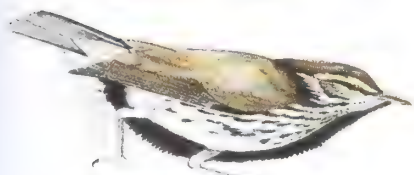
and export jeans bearing the label "Made in the West Bank and Gaza Strip." Kentucky Fried Chicken is getting ready to open in Gaza City, and a Marriott Hotel has finally broken ground after months of delay. And now that Israel has allowed Palestinians to use the new Gaza airport, Palestinians are hoping commercial flights will begin soon, allowing them to export agricultural goods such as strawberries.

But most Palestinians are bracing for more economic hard times. On Om Muktah Street, there are few Palestinian shoppers on the formerly busy sidewalk. Only two shopkeepers seem optimistic: jeweler Khalid Sadie and his brother, who have opened their second shop. Sadie says he still has customers: a handful of businessmen and, the biggest spenders these days, members of Arafat's PNA.

By Sharon Moshavi in Gaza



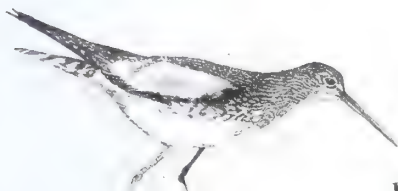
Bullock's Oriole to
GUATEMALA



Northern Waterthrush to
EQUADOR



Scarlet Tanager to
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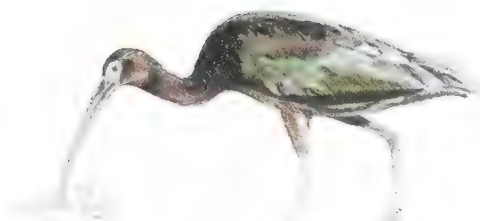
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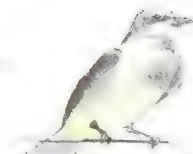
American Kestrel to
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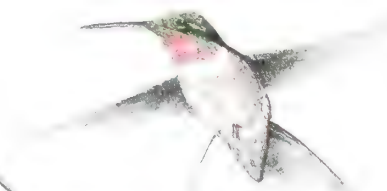
White-faced Ibis to
EL SALVADOR



Western Kingbird to
COSTA RICA



Tree Swallow to
BELIZE



Ruby-throated Hummingbird to
DOMINICAN REPUBLIC



Warbling Vireo to
NICARAGUA



Purple Gallinule to
HONDURAS



Cave Swallow to
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American Redstart to
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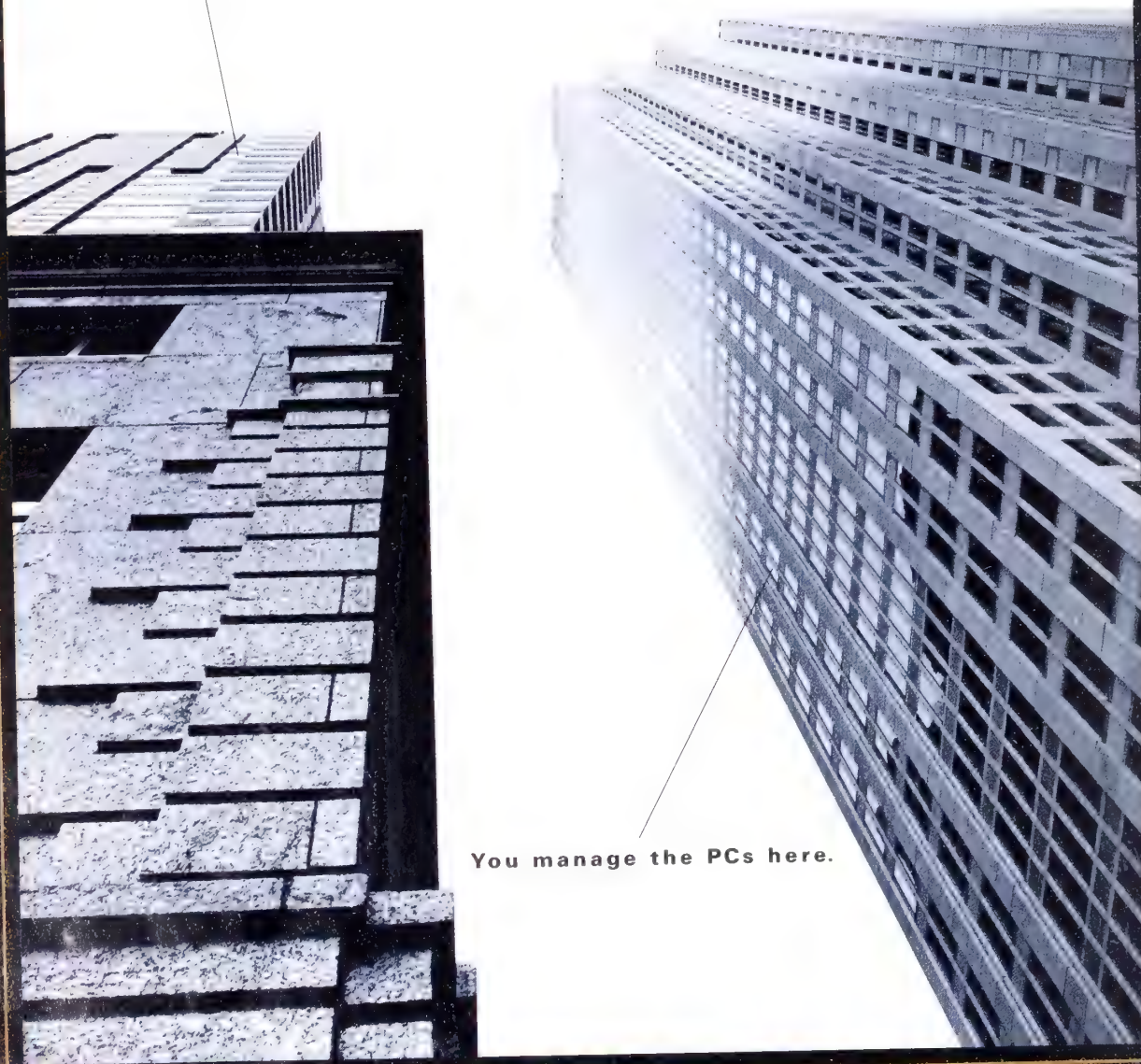
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EDITED BY JOHN TEMPLEMAN

POLAND: SOLIDARITY MAY BLOW ITS BEST CHANCE IN YEARS

In Gdansk, shipyard workers clash violently with riot police. Miners and steelworkers storm and occupy the Treasury in Warsaw. It's hard to believe it is March, 1997, as shouts of "Gestapo!" and "Down with Communism!" echo in the streets. But the imminent forced closure of the bankrupt Gdansk yard, legendary birthplace of Poland's Solidarity movement, is stoking political passions. And Lech Walesa's successors have seized the moment to confront President Aleksander Kwasniewski and the former communists who now rule Poland.

Solidarity has shot back to prominence after years in the political desert thanks to labor leader Marian Krzaklewski. He has stitched together a grab bag of 30 center-right parties into an electoral alliance called Solidarity Election Action (AWS). Pollsters give it a fighting chance of winning power in general elections due in September, reversing the rout of Solidarity-backed parties in 1993 by Kwasniewski's reformed communist Democratic Left Alliance (SLD).

RAMPANT CRONYISM. Despite its strong economic performance, the government is laying into Krzaklewski's hands. Business leaders are delighted with the current 5.5% growth rate, declining inflation, and continuing market reforms. Nevertheless, they are increasingly unhappy about the huge centralization of power, high-handed tax policies, and rampant cronyism that still stalks Warsaw's corridors of power. Besides, the ruling coalition is divided. In a recent feud, hard-liners in the Polish Peasants' Party forced the reformist Agriculture Minister out of office—even though he was backed by the SLD—because they didn't like his reforms.

All the same, Solidarity has some gaping weaknesses that could hurt its comeback bid. The AWS alliance has not been able to hammer out a coherent economic program. Its leaders have advocated a series of woolly ideas ranging from labor laws that protect workers' jobs to slowing down

privatizations and giving greater state assets to workers.

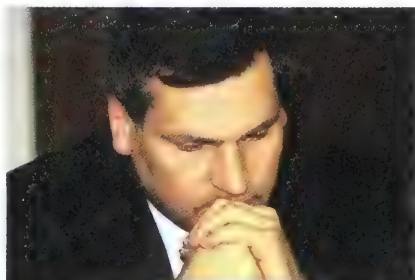
Now, by demanding protection for workers, and using Gdansk as a political battering ram, Krzaklewski is widening a Solidarity schism dating back to 1990 between the labor union and intellectuals. Adam Michnik, a force in Solidarity during Walesa's heyday, editorialized in the *Gazeta Wyborcza* newspaper that the Gdansk protesters' message was really: "Down with a democratic state based on the rule of law." Other big names from Solidarity, such as former Prime Minister Hanna Suchocka, have long floundered to join the Freedom Union party, ardent free marketers.

Krzaklewski is running some other big risks. He's pushing such Polish hot buttons as the abortion issue. He tried, for example, to insert an outright abortion ban into the constitutional revision now in the final stages of parliamentary approval. And he's running on Roman Catholic Church social doctrines, such as Pope John Paul II's dictum "Capital should not be above man," and owners shouldn't be preferred over workers.

The Pope's planned 10-day visit to his native Poland at the end of May could make the church a key election issue. Even Kwasniewski is trying to preempt being labeled antichurch by meeting the Pope in the Vatican in April. Co-opting the church can, however, prove a poisoned chalice. It was one factor in Walesa's defeat in the 1995 presidential election. Although 90% of voters are baptized Catholics, polls show 7 in 10 want the church to keep out of politics.

Polish voters uneasy with the SLD's grip on power are clearly casting about for an alternative. But despite its climb in the polls, it's not sure that the AWS yet provides the answer. To succeed, it will have to find common ground with its more reform-minded partners—and let go of its heroic Solidarity past.

*By Karen Lowry Miller in Bonn,
with Peggy Simpson in Warsaw*



KWASNIEWSKI: *Centralizing power*

GLOBAL WRAPUP

RUSSIAN WORKERS STRIKE

► Russia's new reformist government is getting a baptism by fire. First Deputy Prime Ministers Anatoly Chubais and Boris Nemtsov barely had time to move into their offices in Russia's White House before workers picketed the building. The action was a prologue to a nationwide strike call to 20 million Russian workers.

The one-day strike on Mar. 27 puts the new government on notice that workers' patience is wearing thin over continuing long delays in wage and

pension payments. Chubais is promising to pay off most of the huge arrears, now totaling nearly \$9 billion, by the end of June. If he doesn't, Russia could be in for a long, hot summer of unrest.

INDONESIAN GOLD PUZZLE

► Canadian mining company Bre-X once bragged that its Busang gold find in Indonesia could be the biggest this century. But on Mar. 26, Bre-X's shares were suspended after its partner, Freeport-McMoRan Copper & Gold Inc., dropped a bombshell with its announcement that analysis of

Busang drillings "indicate insignificant amounts of gold." Bre-X, which earlier estimated that Busang contained 71 million ounces, worth more than \$20 billion, said the find may have been "overstated because of invalid samples."

The statements came days after the Bre-X geologist who co-discovered Busang fell to his death from a helicopter. He may turn out to be only the first casualty in the affair. The lure of gold had sparked fierce corporate battles for control of Busang, involving Indonesian President Suharto's family.

A GUNSLINGER NO MORE

Rich Dennis, the 1980s' superstar commodities trader, is now doing what his computer tells him

For years, Richard J. Dennis lived by his wits in the commodity markets—and quite a living it was. His knack for the quick kill made him an estimated \$200 million in the 1980s and brought him fame unmatched by any other futures trader. Then his instincts failed him. By the early 1990s, having lost tens of millions for his customers, he quit the business. Now, he's trading again, with a difference.

Instead of acting directly on his thoughts, theories, and impulses, Dennis translates them into computer programs. When those bits and bytes align with market prices, the computer orders a trade. Under an agreement with a third-party broker who controls most of his customer funds, Dennis must follow the system. No matter what his gut tells him, discretion isn't allowed. So far, the deal has paid off: With a 111% gain in 1996, Dennis once again ranked among the world's top-performing commodity traders. "The left side of my brain has put the right side out of business," the soft-spoken 48-year-old explains.

HUGE LOSSES. Dennis' transformation to robo-trader could prove significant. In derivatives markets, taming traders is the preeminent risk-management problem—just ask Barings PLC or Sumitomo Bank Ltd. A computer system that limits potential losses has great appeal. In Dennis' case,

his goal was to separate a brain loaded with money-making insights from the heart of a gunslinger. By the time he retired in 1988, he had shot himself in the foot by making unusually risky trades—purchasing huge quantities of options just before they expired and became worthless, for example. In one day, he lost \$8 million in a soybean trade gone bad. Losses in his personal

accounts paralleled those of his funds. Adding insult to injury, an early 1990s comeback attempt flamed out in months.

Now, the system curbs Dennis' tendency to go off on fliers by imposing strict risk parameters. In programming the computer to evaluate price, volume, and other market data in search of profitable trades, Dennis says he employs only strategies that have survived rigorous testing and proved successful in the past. While many traders employ



DENNIS IN 1992: Gains of 111% of last year

computer models, such rigid systems remain more the exception than the rule; most traders keep some discretion.

Despite his past big losses, customers have responded enthusiastically to Dennis' new approach. So far, they've given his Dennis Trading Group Inc. \$85 million to manage, up from \$2 million at the beginning of 1996. "What I see here is completely different from the way he

was before," says Bob Collins of Rosenthal Collins Group, an investor in the fund whose firm has cleared trades for Dennis since the 1970s. "It's very disciplined and regimented."

If the past is any guide, Dennis is reaching the point where his computers will be truly tested. A review of his trading over the past decade shows that, like many traders, he has performed best when handling relatively small amounts of money. In 1987 and 1988, when he was trading as much as \$159 million, his net loss after fees was \$60 million. And in 1992, when his equity climbed as high as \$86 million, he lost \$48 million. So far, the fast growth of his stake hasn't caused him to spill out of control, though it may have slowed him down. Through February, he was up 6% for the year, compared with nearly 10% a year earlier.

By thwarting the impulses that led to huge losses in the past, the computer

Portrait of A Robo-Trader

BORN Chicago, Jan. 9, 1949

EDUCATION BA, philosophy, DePaul University, 1970

CAREER Became Chicago Mercantile Exchange runner at 17. Made first million by 25. Built estimated \$200 million fortune. Retired in 1988 after steep losses; attempted comeback in 1992. New computer-driven fund has reaped spectacular returns for two years

POLITICS Contributed millions to liberal pols. Board member of libertarian Cato Institute. Supports legalization of marijuana

ENTHUSIASMS Staunch baseball fan and 3% owner of Chicago White Sox

have freed him to concentrate on the theorizing that was always his greatest love, Dennis says. His faith in his system has led him to promote himself aggressively, even though he swore in the late 1980s that he'd never trade again, except as a pastime. He changed his mind, he says, because he wants to build a war chest to support a variety of philanthropic and political goals—among

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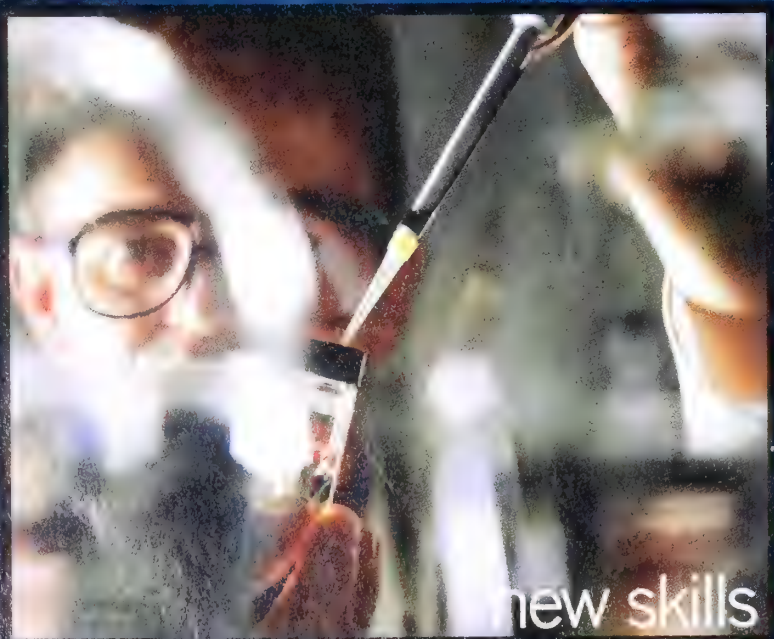
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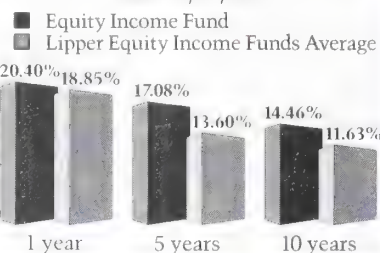
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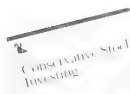
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People

them, legalizing marijuana and aiding victims of domestic abuse. Money, he says, "is the main ingredient if you want to influence things."

Like many kids growing up in blue collar Chicago, Dennis viewed the city futures exchanges as his best shot at riches. He became fascinated with trading even before he was old enough to enter the pits. While still a teenager, he persuaded his dad, a city engineer, to fill orders for him. Before long, the plump, bookish kid had lost half his father's life savings and his young brother's pizza-delivery money, too. "I made every mistake 10 times over before I was 21," he says. Yet even as he learned through painful trial and error to anticipate price movements, he never lost the courage to bet the ranch. He made his first million by age 25, and his fortune soared over the next decade. Never married, he remains close to his brother, Tom, a veteran trader and his

Dennis has spent millions on shelters for abused women and on efforts to legalize pot.

longtime partner. He guards his privacy carefully and declined to be photographed for this article.

By 1984, Dennis was one of the biggest single traders in the commodity markets, and mere rumors that he might be buying or selling would move prices. When he placed classified as a proclaming "trader wanted," he got some 1,000 responses from people eager to learn his secrets. He settled on fewer than two dozen novices—among them two professional gamblers and a fantasy game designer—and after a two-week training program, he gave them money to trade under his firm's auspices. Several went on to become top commodity fund managers, including Jerry Parker of Chesapeake Capital Corp., who now manages more than \$1 billion. "It was sink or swim. Sort of an experiment," recalls Parker, a former accountant. Dennis ran the training, Parker says "because he wanted to have a certain chunk of money traded using systematic rules" while he went on and tried out new techniques.

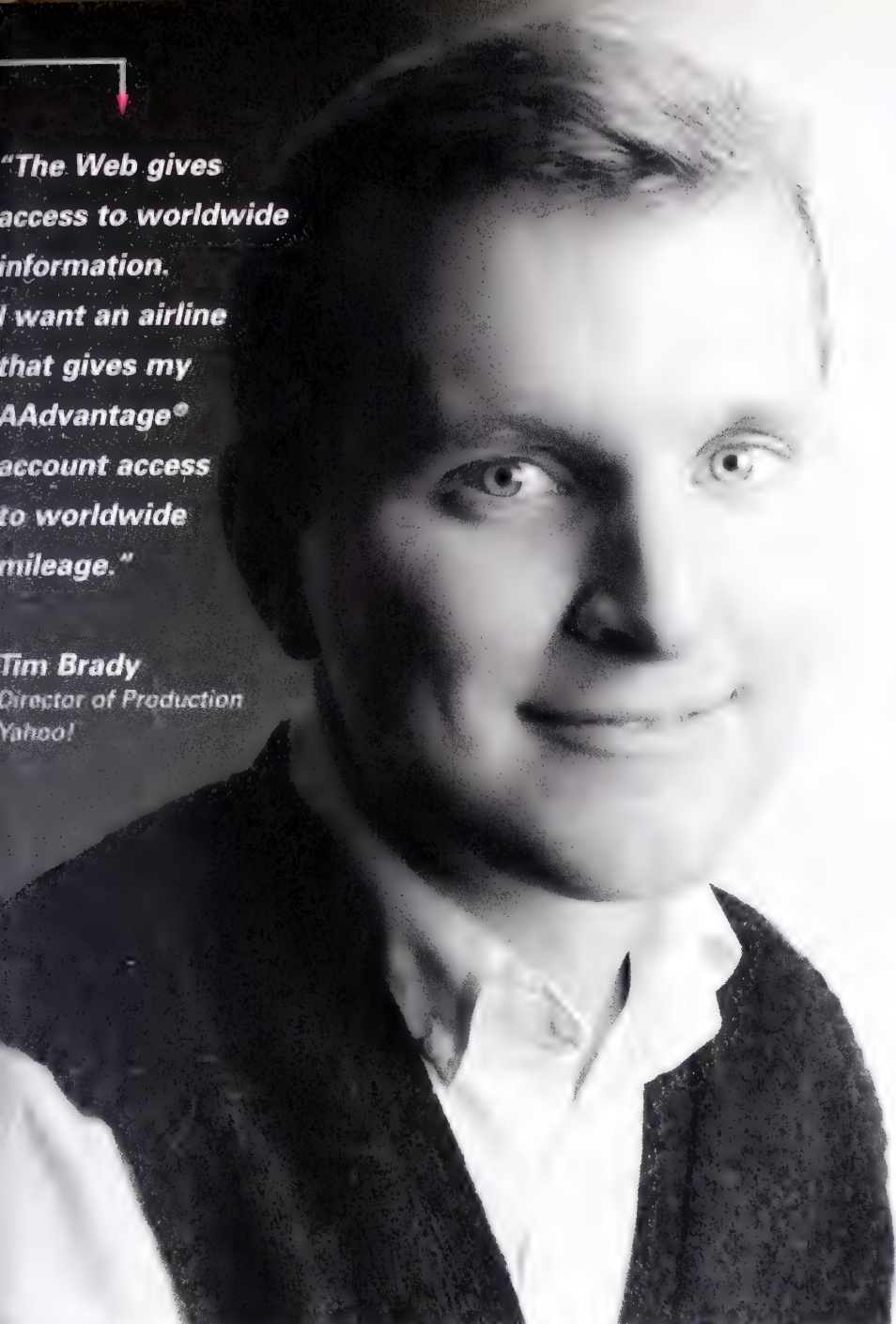
As Dennis' bank account grew, his interest in influencing public affairs grew along with it. Starting with a \$1,000 donation to George McGovern

Source: Lipper Analytical Services, Inc. Figures include changes in principal value, reinvested dividends, and capital gain distributions. Investment return and principal value will vary, and shares may be worth more or less at redemption than at original purchase.

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COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

in 1972, he has given \$10 million to politicians, he reckons. An additional \$20 million went to a think tank he founded in the early 1980s and closed in 1989, and still more went to a private foundation, he says. While some of the money paid for domestic-violence shelters, his chief cause is decriminalizing pot, which he calls good economic and social policy. "A lot of people give money to the heart association," he says dryly. "I try to pick things that are as unpopular as possible."

In addition to giving money, Dennis has participated in political debates and written op-ed pieces and magazine articles, including a 5,000-word article on the economics of legalizing drugs that ran in *The Atlantic* in 1990. When his public funds collapsed in the late 1980s, burned investors accused Dennis of being so distracted by politics that he failed to monitor trading—an accusation he disputes. In any case, Dennis says, all his political giving achieved little. "I wasn't looking for an ethanol subsidy. I was looking for specific policy outcomes," he says. "[The politicians] would say, 'What's the hidden agenda?'" The lack of results helped transform him from liberal to libertarian. These days, he advocates less government at all levels: "The rule of thumb in politics ought to be, when in doubt, don't do it."

BIG LOAN? Dennis is deeply bitter about a class action brought against him by investors after his big losses. In 1990, plaintiffs concluded that he was "financially strapped" and "debt-ridden," and court records say he agreed to borrow \$2.5 million from his brother for a settlement. Dennis says his net worth has been in the millions for more than 20 years and that he paid the settlement. But Philadelphia attorney Merrill G. Davidoff, who represented plaintiffs, insists: "He had no money."

That's not an issue any longer. The question now is whether he can maintain his phenomenal rates of return. Will he substitute nerve endings for microchips if his results head down? Dennis says no. Yet his funds' disclosure documents impose no legal obligation to obey the computer. The fine print must read that way, his partners say, so that Dennis can exit markets quickly in the event of war or financial meltdown. If he overruled the computer under less drastic circumstances, "We would close our accounts," says Esther Goodman of Kenmar Holdings Inc., the firm that reconciles Dennis' computer signals with his trading blotter on behalf of customers. Still, for investors it's a matter of trust that Dennis, once so quick to shoot from the hip, will keep his guns holstered in bad times as well as good.

By Greg Burns in Chicago

The Workplace

UNIONS

LOOK WHO'S PUSHING PRODUCTIVITY

Labor is embracing partnerships to keep companies competitive



LABOR AND MANAGEMENT STUDY SIDE BY SIDE AT THE MACHINISTS' SCHOOL

David W. Groetsch has brought in plenty of consultants over the years to his 500-worker unit of Aluminum Co. of America, which makes equipment for the packaging industry. As the division president, he has tried all the trends, from quality to teams. But the union as consultant? That was a new one. The International Association of Machinists (IAM), which represents 170 of his workers at a Denver plant, came knocking in 1994, asking to help create a high-performance work system.

Groetsch agreed to give it a whirl. He sent three managers from Denver to join local IAM leaders in a weeklong course at the union's school in Maryland. There, they learned how to set up a labor-management partnership and spur productivity—and in the process protect jobs. Then, as any consultant would do, the IAM sent experts—free of charge—to Denver to help union leaders and man-

agers from manufacturing to marketing create team systems and joint decision-making councils. Relations on the shop floor have already improved, say Groetsch, although he doesn't yet have hard data on efficiency gains. "If someone from Andersen Consulting had said: 'We can improve product delivery, customer satisfaction, and profitability—hire me,'

would have yawned," says Groetsch. "But when the union walked in and said all that, I got my attention."

The IAM is at the forefront of a revolutionary change in the way unions view cooperation with management. After decades of suspicion and hostility

toward company-sponsored teams, some unions now are actively embracing partnerships with employers, even pushing the trend (table, page 75). The goal: to protect workers' jobs and pay by making their employers more competitive. Unions also want to win employee more say over their work and how the

The unions' goal:
To protect workers' jobs and win more say over how their companies are run

The Workplace

companies are run. "The days of 1950s-style table-banging aren't gone yet, but that's the easy way for union leaders," says Laborers' President Arthur A. Coia, whose union is active in such ventures. "It's a lot harder to ask: 'What does the employer need to stay competitive' with union wages, and then help them to achieve it."

WAGE WARS. Labor's new attitude marks a shift experts have been urging for years. By developing expertise in new work systems, unions have a chance to make themselves valuable to employers battling today's intense global and domestic competition. Partnerships also could help to dilute the antagonism many executives feel toward unions. In Las Vegas, for instance, the Hotel Employees & Restaurant Employees Union has forged cooperative relations with once hostile big hotels by wiping out cumbersome work rules. Managers now have flexibility to schedule extra room cleanings when many customers show

Radian International had a hard time finding trained workers for a lead-cleanup project. It wound up hiring through the union



GETTING THE LEAD OUT

up at once, for example. "They typify what the labor leaders of tomorrow will be," says Arthur M. Goldberg, the head of Hilton Hotels Corp.'s gaming unit, which owns three Vegas casinos. "They'll tell us some of our problems before we even realize them and work to solve them."

Still, even the most willing unions continue to battle over traditional issues such as wages. Consider the United Steelworkers (USW), which has an extensive partnership with Wheeling-Pittsburgh Steel Corp. that includes a board seat. Despite the ties, it has been on strike since October over pensions. "It's perfectly logical for labor and management to cooperate to enlarge the pie and fight over how to split it up," says former Labor Secretary

Ray Marshall, who is the USW's representative on USX Corp.'s board.

The USW made the first national push for partnerships in 1993, when it demanded that major steelmakers designate a union board seat and set up management/union councils at all levels of the company. Steelmakers were suspicious, and USX vowed not to give up a board seat. In the end, all but Allegheny Teledyne Inc. gave in. Last year, the union won similar pacts in aluminum and is pursuing the idea wherever it can. "This is the model we want for the whole union," says Roy Murray, the USW's collective bargaining director.

Today, cooperation in steel is advancing but far from complete. After years of enmity, some managers aren't keen to share decision-making. Others don't feel the need if business is thriving. At US Fairfield (Ala.) plant, the unit making tubular steel faces stiff competition, so managers nurture the partnership, ho-



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g to spur efficiency and quality gains. ut on the flat-rolled side, where de- and is strong, managers are less com- mitted, union officials say. USX declined comment.

THE PAYOFF. The IAM has opted for a ft-sell approach, marketing itself as a source for employers. Three experts its school in Hollywood, Md., scour e country for IAM locals and companies

lling to sign on to high- performance training. In- rested parties, such as ose at the Alcoa plant, ke a weeklong course the school, where plant anager and local union ficers study side by de, learning everything om the history of high- performance systems to w accounting methods measure them.

The Laborers takes a fferent tack, supplying illed workers to com- munities as they need em. Several years ago, set up a foundation intly with contractors provide bid specifica- ons on construction ojects nationwide. The undation, staffed equal-

ly by union and industry officials, also offers to supply trained union workers. Contractors pay union wages for those workers but use the service only when they wish; even nonunion companies are eligible. This is a huge shift for con- struction unions, which typically consid- er nonunion contractors the enemy. The payoff: The union gets more jobs for its members even if it can't win election

battles against nonunion contractors.

The program has paid off for con- tractors, too. Radian International, an environmental cleanup joint venture between Dow Chemical and Hartford Steam Boiler Inspection & Insurance, was having a difficult time finding workers with the extensive training required for a new contract to clean up lead on an Environmental Protec- tion Agency Superfund site in Missouri. They fi- nally hired through the Laborers' foundation. "We can't always find qualified people in this field, so the union acts like a temp service," says Timothy J. Mains, a Radian lawyer.

AFL-CIO President John J. Sweeney is prodding unions into more aggres- sive recruitment, trigger- ing clashes with employ- ers. Labor's new stance on cooperation will not change that. But employ- ers might feel better knowing that competi- tiveness is also on labor's agenda.

By Aaron Bernstein in Washington

COOPERATION: UNIONS TAKE THE INITIATIVE

After years of skepticism, some unions are now advocating partnerships with management. A few examples:

AFL-CIO Started a Center for Workplace Democracy to help unions develop expertise to get more involved in managerial decisions.

LABORERS Set up a foundation with contractors to train con- struction workers in specialized skills. Markets and supplies workers to union and nonunion firms.

MACHINISTS Runs weeklong courses for plant managers and local union leaders on high-performance work systems in its Maryland school. Sends union consultants to plant to help set up teams to lift productivity.

NEEDLE TRADES Formed an extensive partnership with Levi Strauss to cut costs and keep production in the U.S.

STEELWORKERS Persuaded major steelmakers to appoint union-designated board members. Trains union leaders in busi- ness skills so they can sit on union/management councils.

DATA BUSINESS WEEK

Help me, I'm working and I can't get up! The more you make, the more they take. Everybody gets theirs and you get what's left. Will it be enough for a comfortable retirement? You've made some investments, but now you may not feel quite as good about them. And does anyone need to ask how you feel about Social Security? Perhaps you should consider something that could give you a little more confidence. May we lend you a hand? You will find a wide range of investment opportunities at American Century to help you meet your future needs. We have over sixty mutual funds organized to diversify your portfolio. To help get you up and keep you ahead. More than two million people trust us to manage their money-nearly \$54 billion, and climbing. They seem to like our approach to investing. It's a little different from most others. Our funds are managed by teams. Instead of individuals. We think that allows us to make better and more consistent decisions. We also weigh our independent research against market trends. To see if they are right. Independent thinking. It can make the difference between winning and losing. Invest in our thinking. It could give you a new outlook.



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ZOOMING DOWN THE

Remember all that talk a few years ago about the Information Superhighway? Offices and homes across the country were supposed to be transformed by powerful new communications technologies that would deliver two-way video, online games, home shopping, even the choice of working from the beaches or the ski slopes—all conducted via snazzy new digital devices. Instead, after a few limited experiments by Time Warner Cable, U S West, and Bell Atlantic, the telephone and entertainment companies decided that these high-tech roadways were just too expensive to build—and a hard sell to their cost-conscious consumers.

Even the Telecommunications Reform Act of 1996, meant to remove many of the regulatory barriers that made it tough for telecom companies to invest in the I-way, has made little difference. Fourteen months after President Clinton signed the law, the nation's phone and cable-TV companies are still fighting yesterday's battles, bent on invading each other's turf by leasing and reselling existing local and long-distance service.

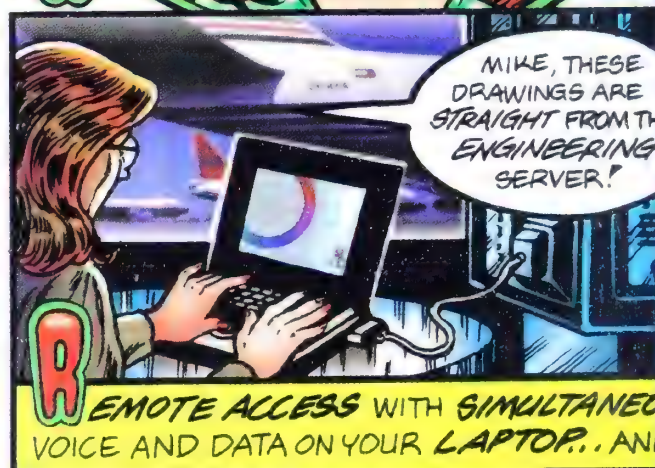
But outside the boardrooms of telecom's giants, innovation is sweeping the wired and wireless world—bubbling up from the bottom. Hundreds of alternative carriers and nimble startups are leaping head-first into the newly deregulated environment. Pioneers such as Wildfire Communications, Lucent Technologies, Dialogic, and vdonet are the new names to watch.

JUGGLING. Their holy grail: to unite PCs, phone, E-mail, fax, and video into a seamless fabric. They are designing software that sends phone calls around the world on the Internet so cheaply it's like dialing your cousin across town. And they're offering high-quality videoconferencing systems that make it as easy to do a meeting on top of a mountain as in the company cafeteria. "Last year was Year 1 of a 15-year revolution," says Joseph S. Kraemer, a vice-president at consulting group A.T. Kearney in Rosslyn, Va. "We're about to jam the equivalent of the 100-year Industrial Revolution into the next 15 years."

Unlike the original I-way visions, this revolution is starting at the office, not the home. The standard-bearers are such innovative outfits as Precision Response Corp., a Miami company that's something of a showcase for the merger of comput-

ers and phones. Precision Response handles customer service for 62 clients, including Taco Bell, Ryder System, and British Airways. To manage the 150,000 to 200,000 calls it gets each day, Precision has toll-free lines dedicated to each client and linked to PCs that pull up data about a given company in just milliseconds. Intelligent phone switches steer calls to customer-service reps best equipped to handle each problem.

With such a setup, juggling becomes a snap. While a customer-service rep is still on the line soothing an upset Taco Bell customer, for instance, an E-mail message is immediately



Special Report

-WAY Alternative carriers and nimble startups have united PCs, E-mail, fax, and video

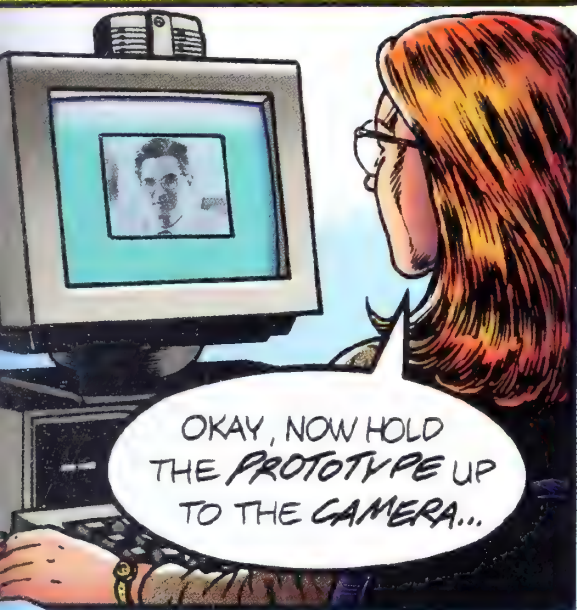
The white line dividing computers and telephones, voice and data, is blurring at last. Why now? Because of a confluence of technology and demand—driven, to a huge degree, by the Internet phenomenon. Building on the union of data networks and computers, the Internet has become the new global communications infrastructure for businesses. With its standard interfaces and low rates, “the Internet has been the great leveler for communications—the way the PC was for computing,” says analyst Virginia Brooks of Aberdeen Group Inc., a Boston consulting firm.

Companies that spent millions of dollars constructing their own private data networks and complex electronic data interchange systems in the 1980s are shifting over to the Web. General Electric Co., for example, had invested heavily over

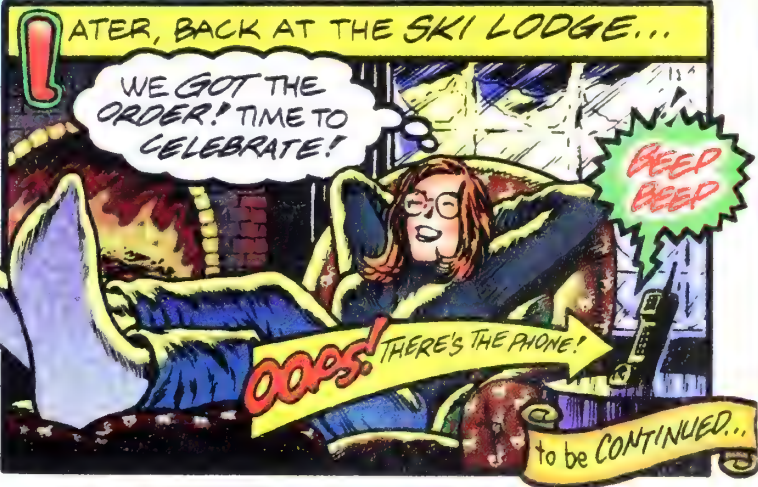
the past decade in proprietary networks to do business with suppliers and contractors. But a switch to a Web-based electronic commerce system called the Trading Process Network is saving GE millions of dollars a year. Now, GE is opening the network, which brings together buyers and suppliers of everything from machinery to stationery, to outside companies for trading with each other. A bonus for GE: It will collect a transaction fee on every purchase made.

The Internet is also giving rise to new products that could undermine traditional phone services. The one that sends shivers down the spines of telecom execs: software that lets you place phone calls over the Net. Cybersurfers figured out early on that, for the price of a local call to their Internet service provider, they could dial around the world to anyone

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else hooked up to the Net. All it takes is a PC equipped with a microphone, sound card, and special software.

Today, most Net phone callers are PC hobbyists. For everyone else, the quality of these calls is usually too inferior to the public phone network. But that could soon change. VocalTec Ltd. in Northvale, N.J., the leading maker of Internet telephony products, recently broadened the appeal by introducing gateways that connect the Internet to standard phone systems—allowing PC users to call non-PC users on their phones and vice versa. The company walks its talk: Chairman Elon Ganor says VocalTec saves \$10,000 a month on phone bills between its Israeli and New Jersey offices by routing them over the Web.

THREATS LOOM. Such savings can more than offset the poor quality of Net calls—an issue that disappears anyway in the case of data transmission. Just ask TeleChoice Inc., a Verona (N.J.) telecom consulting firm that used to swap E-mail messages and database updates between its five U.S. of-

**PCS ARE BECOMING
TELEPHONE COMMAND CENTERS
FOR VIDEOCONFERENCING AND
UNIFIED MESSAGING THAT COMBINES
E-MAIL, FAX, AND VOICE MAIL!**

fices by dialing directly. No it's done across the Net. "A \$500-a-month remote access bill from Mair to New Jersey just went away, literally overnight," says Daniel D. Briere, president of the company.

The Internet is not the only threat to the telephone companies. A slew of startups are finding ways to eat into traditional telephone usage. Take FaxNet,

Boston outfit that launched a long-distance phone service in early 1996, tailored to fax traffic. Its Never Busy Fax capability ensures you won't miss an incoming fax even if your own machine is tied up. FaxNet diverts the transmission to its own computers and then relays it when your machine becomes free.

Sounds elementary, but such a service can be a business saver. At Vimac, a Boston venture-capital firm and FaxNet investor, a construction accident wiped out phone service for two days last November—right in the midst of closing a \$1.5 million deal. When the phones were restored, FaxNet

THE RACE TO REWIRE CORPORATE AMERICA

In the corporate world, you can never have too much bandwidth—the lines and switches that transport all your voice and data communications. The more bits you push down the network, the more PCs you tie in, the slower the traffic moves. Add in full-motion video, and most office networks choke.

None of this is news to networking companies. Bay Networks Inc., 3Com Corp., and their ilk began rejiggering the dominant office network standard, Ethernet, three years ago to gain speed. Almost overnight, they delivered a minor miracle called Fast Ethernet that lets office workers zip data around at 100 megabits per second (mbps)—a tenfold increase over the old standard.

DEAD DUCK? Now, the same network giants, plus Cisco Systems, Compaq, Sun Microsystems, and a host of startups, are ratcheting up again. Their goal: gigabit Ethernet that can move data around the workplace at speeds of up to 1 billion bits per second. The first switches will be available toward yearend and could cost as little as \$1,600 per dedicated line, says Dataquest Inc. chief analyst Don Miller. He predicts that the global market for such switches could swell to \$2.9 billion by 2000. In the network world, "there's never a boring minute," Miller says with a chuckle.

Not all manufacturers find it so amusing. For the past decade, network vendors large and small have sweated to

create a standard called asynchronous transfer mode (ATM). It's an elegant but expensive combination of switching and transmission equipment that mixes voice, video, and data packets and speeds them over optical fiber. ATM peaks out at about 622 mbps—six times the speed of fast Ethernet. But gigabit Ethernet will beat ATM into most offices, argues Brendan Hannigan, an analyst with Forrester Research Inc. in Cambridge, Mass., in a new report. "ATM to the desktop is dead as a duck," he says.

Fortunately for the ATM camp, the networked universe is vast—and desperate for bandwidth. Step outside the

local area network, and you find soaring intercity and transnational phone and data links hungry for more speed. Companies such as AT&T, Federal Express, and Texas Instruments have already spent millions on ATM to beef up their wide-area networks. By 2000, predicts Dataquest, such demand will be worth well over \$1.5 billion.

By then, wide-area customers will have several appealing choices. No more than 15 companies and individuals have asked the Federal Communications Commission for licenses to cover the planet with satellites—half of them hoping to offer broadband services.

FIVE WAYS TO BREAK UP DATA LOGJAMS

CABLE MODEMS Sleek black boxes that link PCs to TV cables, letting home Web surfers download information from the Internet at up to 40 million bits per second (mbps). TCI, Time Warner, and others are conducting trials, but it will take another two years to iron out the bugs.

DSL The Baby Bells' answer to cable modems. These "digital subscriber line" technologies boost the data transmission speed of old-

fashioned copper wires to as much as 9 mbps. BellSouth, Bell Atlantic, and MCI are in the field with commercial service expected in 1998.

BROADBAND SATELLITE Schemes to beam down high-speed Internet access from satellites have been hatched by a diverse crew, including Hughes Communications, Space Systems/Loral, and Teledesic, a venture backed by Craig McCaw and Bill Gates. Speeds could eventually exceed 1 gigabit—but don't hold your breath. Most won't be ready before 2001.

started spitting out all the faxes stored during the outage. "The service is worth far more than the \$30 to \$40 per month we pay for it," says Vimac Managing Director Robert C. Roeper.

Low prices, such as the fees that are charged by FaxNet, are a hallmark of the new telecom age. By marrying telephony with low-cost PCs, a slew of new products are now affordable for small fry as well as corporate titans. Small-office phone systems from companies such as Inter-Tel, Voysys, and Dash cost less than \$10,000 and offer voice-mail and call-queuing capabilities that cost three times that a few years ago.

OVERLOAD. The same can be said for a new buzzword of the digerati: CTI, for computer-telephony integration. CTI started out as a high-end technology used in call centers run by direct marketers or service companies, such as Precision Response. Systems typically included automated call-routing, interactive voice response systems, and "screen pops" that display information about the caller.

Several years ago, Microsoft Corp. and Novell Inc. tried bringing this technology to any old desktop by creating competing standards for connecting phone systems to PC networks. The promise: Desktop CTI would let users place, receive, and manage phone calls through their PCs. And they could receive faxes, E-mail, and voice mail in a single box on their screen. But the products, TAPI and TSAPI, went nowhere.

est plan comes from Teledesic, backed by cell-phone billionaire Bill Gates and Microsoft Corp.'s Bill H. Gates III. They want to put satellites in orbit 435 miles up, at a cost of about \$9 billion, and start service around 2002.

it flies, Teledesic will offer a big payoff. Linked by a receiver dish to Teledesic's satellite ring, top-paying customers will get up to 1.2 gigabits per second. But Teledesic must fight it out with such giants as Hughes Communications and Space Systems/Loral, which expect to be spacebound first.

How will all this bandwidth change the nature of work? For one thing, it will end an aggravating network bottleneck. What's more, high bandwidth networks will work more portable. By the time

A superfast switching technology called asynchronous transfer mode is already boosting capacity on long-distance phone and data links. Proposals say the technology, which runs up to 622 mbps, could do wonders for crowded office networks as well. Companies would have to scrap existing networks.

GIGABIT ETHERNET As the name suggests, these powerful office networks will handle a billion bits per second, posing a big challenge to ATM. Companies will start installing them this year. But the switches will not be available in the early days and will require a lot of fiber to run.

offices start installing gigabit Ethernet, telecommuters will get a quantum boost in Internet access speeds at home. Fast modems will finally take advantage of the thick coaxial TV cable that already snakes into 65 million homes. These modems, installed by the likes of Time Warner Inc. and Telecommunications Inc., promise Internet download speeds of 40 mbps—many times what most office workers can get today.

Not to be outdone, MCI Communications, Bell Atlantic, BellSouth, and other phone companies

The two companies couldn't find resellers that understood both the telecom and computing needs of corporate customers, and there wasn't much telecom equipment that supported the software.

Now, a wave of products built on TAPI and TSAPI that works with standard telecom equipment is hitting the market. Coresoft Technologies Inc. in Orem, Utah, has just released a \$4,000 software package called CenterPoint that offers all the CTI bells and whistles but runs on Windows 95, NT, and Novell's Netware systems. One neat trick: Users can select a handful of names from a database and command the phone switch to set up a conference call with all of them. "The convergence between computers and telephony is really happening at last," says Coresoft President Dan L. Garrison.

For proof, take a look at a technology aimed at people suffering from message overload: unified messaging systems that route voice mail, E-mail, and faxes to a single electronic in-box. This concept is a no-brainer for people who have spent half the morning checking messages on their phone, their PC, and the fax down the hall. Lucent Technologies and Octel Communications, among others, sell unified messaging systems that route all messages to staffers' PCs via the corporate data network. Cliff Roper, voice and video ser-

Special Report

are testing a high-speed transmission technology for public networks known as digital subscriber line. DSL uses powerful chips to compress voice, video, and data and then speed it over ordinary copper phone wire. In field tests, DSL has hit 9 mbps—slower than cable modems but nothing to snicker at.

BellSouth says DSL modems, like cable modems, will cost about \$350. MCI is testing one version of DSL at a rural Iowa school.

It plans to begin service to homes and small businesses in August. Home Web surfers will be pleased by the fast access speeds. More important to Corporate America, cable and DSL modems

will let home workers log on to their corporate networks and zoom through work as quickly as they could at the office.

Not that there won't be speed bumps. Winn Stephenson, vice-president for network computing at Federal Express Corp., points out that companies installing gigabit Ethernets will need more powerful servers and fiber-optic lines to take advantage of the speed. "You'd better have a lot of fiber on the wide-area network," he cautions—and a lot of money to pay for all the upgrades. Given Corporate America's appetite for bandwidth, that shouldn't be a problem.

By Neil Gross in New York



vices manager at Tektronix Inc., figures his company will save \$400,000 over five years using Lucent's Intuity system instead of an outside service. An added bonus: By scattering nine Intuity servers around the country, Roper is cutting out \$10,000 a month in long-distance charges from employees calling in to get their messages.

Digital Sound Corp., in Carpinteria, Calif., has developed a similar system for use on the

public phone network.

Now being

Special Report

tested in Seattle by GTE Corp., this unified message service for the home would cost about \$20 a month. "There's huge pent-up demand for this in the small-office and home-office market," says Dennis L. Bordelon, a Digital Sound product manager.

Wireless callers need not feel left out of the computer-telephone nexus. Pacific Bell is testing a sophisticated messaging service on 300 wireless-phone customers in San Diego. Developed by Boston's Wildfire Communications Inc., its "electronic assistant" answers incoming phone calls, screens them, and automatically routes them to wherever you are—a conference room, your home office, or your car. Most of the features are controlled through spoken commands, so you don't have to take your hands off the wheel.

THE
INTERNET
HAS BECOME THE
GLOBAL COMMUNICATION
BACKBONE
FOR BUSINESS--
AND A CHEAP WAY
TO MAKE PHONE
CALLS!

Such a system is a godsend for short-staffed operations. Don Blanton, owner of multimedia production company The Wow Factor in West Hollywood, Calif., has no secretary and relies on Wildfire to track him down when clients call. "I have to be reachable," he says. "If I'm not, I'm out of a job the next day." The Wildfire service costs Blanton about the same as his monthly cellular bill, but if it spares him losing a single

deal, it pays for itself, he says.

For a richer media experience, many companies are latching on to desktop videoconferencing products from Intel, Cisco, Phone, and VDonet, among others. Using PCs rigged up with tiny cameras and video boards, workers from Tokyo to Tacoma can hold live conferences routed over a phone line or the Internet. These products cost just one-tenth as much as room-sized videoconferencing systems, says Jeremy Goldstein, president of PicturePhone Direct Inc. in Rochester, N. Y., an integrator of videoconferencing equipment. Credit cheaper computer power

ROCKY MOUNTAIN HIGH TECH

To check out the action in telecom technology, go west. At Colorado's Vail Ski Resort, workaholics can schuss over to the nation's first mountaintop business-communications center, opened by Sprint Corp. in January. Sprint CEO William T. Esrey has a house nearby and proposed the center to Vail's owners because he found it difficult doing business over a pay phone. The center, located in a restaurant and free to all comers, is equipped with a videoconferencing room, a stock-quote terminal, and personal computers linked to the Internet via superfast T1 digital phone lines. Or visitors can plug in their own PCs. Don't laugh. Every week, at least one skier arrives with laptop in tow.

TOP TIER. Colorado may be one of the most wired states. In the past five years, the Denver-Boulder region has given birth to hundreds of startups specializing in communications technology. The number of tech companies jumped from 2,171 in 1992 to 3,087 in 1995, according to the Colorado Labor Dept. The state ranks third in high-tech jobs as a share of total employment: Only California

and Texas are higher. Venture capitalists say the biggest concentration is in telecom. "We are seeing some of the best and brightest minds in communications here," says Adam Goldman, a partner in Denver's Centennial Funds, a venture-capital firm.



SKIER WITH LAPTOP: Sprint helps Vail keep in touch

It all started with cable TV. Colorado is home to cable giant Telecommunications (TCI), as well as Jones Intercable, DirectTV, and EchoStar Communications. "TCI drew a lot of other companies here," says William J. Maxwell, president of ICG Communications Inc., an Englewood-

based alternative local-service provider. The state also boasts a top telecom engineering program at the University of Colorado at Boulder, and it's the only spot in the U.S. where satellite transmissions can be bumped directly to Asia and Europe.

The startups cover a wide swath. Mercury Mail in Denver delivers E-mail for corporations, Englewood's Logotronix Communications makes international callback switches, Wireless Telecom in Aurora designs wireless data services, and Freshwater Software in Boulder sells Web-management tools.

Not all the newbies are obscure. Qwest Communications Corp. in Denver got a lot of attention in December when it hired a new CEO—Joseph P. Nacchio, ex-head of AT&T's \$26 billion consumer calling business. Qwest is building a high-speed long distance network primarily for data. Denver, says Nacchio, "is at the crossroads of a lot of the action" in the telecom industry. It doesn't hurt, adds the Brooklyn (N. Y.) native, "that there's a great quality of life out there." Or that you can work from a ski resort.

By Catherine Arust in Denver

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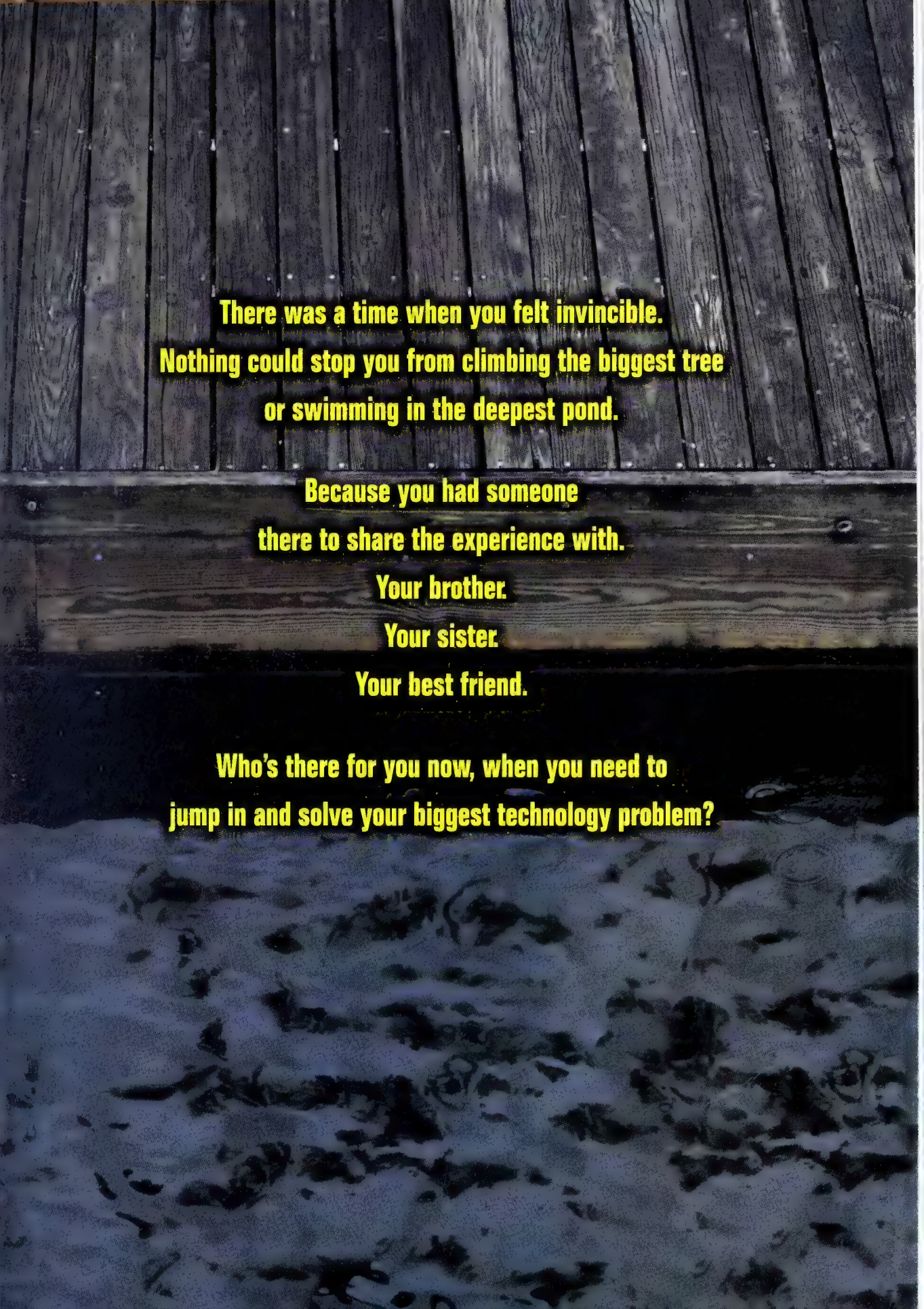
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The background of the image is a photograph of a wooden deck made of vertical planks, with a horizontal beam visible in the middle. Below the deck is a body of water with dark, rippling reflections. The text is overlaid on this background in a bold, yellow font with a black outline.

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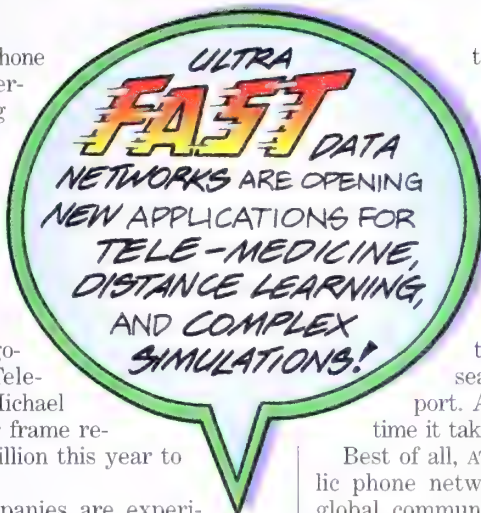
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and the wide availability of digital phone service. "In five years, videoconferencing will be as common as faxing today," Goldstein says.

But to get to that point, companies will have to beef up the bandwidth of their networks. One solution is a digital service called frame relay, that speeds data packets by zooming past check-ins required in old analog phone lines—"like a diplomat in a limo going through red lights," says Telechoice's Briere. Datapro analyst Michael Smith estimates the market for frame relay services will grow from \$2.5 billion this year to \$3 billion in 1999.

BETTER MOUSETRAPS. Many companies are experimenting with an emerging networking technology called asynchronous transfer mode, or ATM (page 78). Originally developed by Bell Laboratories for high-speed voice networks, ATM has now been adapted for data applications. The appeal: Compared with modems, which top out at 56 kbits per second, or today's fastest digital trunk lines, which hit 45 megabits per second, ATM carries data at blistering speeds starting at 155 mbps.

The ability to move that much data is already creating bet-



ter mouse traps. The Defense Dept. used a fiber-optic ATM network between the U.S. and Germany to relay high-resolution images of Bosnian terrain, allowing pilots to practice reconnaissance missions in simulators before taking to their planes. The Mayo Clinic in Rochester, Minn., uses an ATM backbone for "tele-medicine"—doctors can videoconference with patients in a children's clinic in Scottsdale, Ariz. And the American Petroleum Institute is using ATM over satellites to transport drilling-site data collected by ships at sea instead of waiting until the ships return to port. Analysts estimate that slicing a month off the time it takes to analyze a drilling site could save \$200,000.

Best of all, ATM switches are moving quickly into the public phone network, which will pump up the speed of the global communication network. Join those fast links with improved local connection speeds—via emerging technologies like ADSL and cable modems—and all these whiz-bang new office technologies will trickle down to the home, just as PCs did. That's when you may finally see an Infobahn for the rest of us.

By Andy Reinhardt in San Francisco, with Peter Elstrom in Chicago, Paul Judge in Boston, and bureau reports

Special Report

EVERYTHING'S UP TO DATE IN HELSINKI

On a blustery winter day in Helsinki, Finnish telecom experts are racing to wire the most technologically advanced sports arena in the world. Every nook and cranny at the \$60 million Hartwall Arena is rigged for high-speed communications, including dozens of "smart seats" equipped with 155-megabit Internet connections and concession stands that won't accept real money, only electronic cash cards.

While the rest of the world tinkers and putters, Finland has infused cutting-edge telecom technology into every corner of its economy. This country of 5 million people has the highest penetration of wireless phones in the world—30%, vs. 17% in the U.S.—and the highest rate of Internet usage, 6%. Its phone network is 100% digital, and a steady stream of new services are tried here first, from wireless Internet Webcasting to electronic cash systems. "No one is making a lot of money on it, but everyone is in the stream," says Patti Packalen, CEO of publisher Aamulehti Group.

The credit goes to deregulation. Finland's wide-open phone market is



LOOK MA, NO PC: Web surfing via communicator

home to 49 competitors—and some of the lowest calling rates in the world. Tantalized by cheap technology, Finnish businesses are gobbling up new technologies. Helsinki Telephone Co. aims to help forge a digital economy by building a virtual-reality, three-dimensional replica of Helsinki by 2000—accurate to within 10 to 20 centimeters—that anyone could use to test new cyberservices.

Finnish entrepreneurs are already designing 21st century information services. Web-development company Digia has created Web sites for one

of Finland's largest power companies that make it possible for each household to monitor electricity costs in real time. Oulu-based Elektrobitt pioneered a technology to use wireless phones as a replacement for big, complex office systems. Helsinki Media Co.'s Startel unit delivers financial info to Internet-connected mobile phones for \$40 a month. And kids attending the little red schoolhouse in Ruskela tap into high-speed wireless networks to take virtual visits to a reindeer farm in Lapland.

Business execs revel in the new technology. Telecom Finland Chief Financial Officer Kaj-Erik Relander carries a cellular phone/Internet communicator that he says "makes me 30% more efficient." He uses it to discreetly type a message to his secretary on the tiny keyboard during dinner in an elegant restaurant. He sends the E-mail and then glances at a fax that has just arrived on his phone's screen. If you think all this technology just makes it possible to spend more time working, think again: That fax is confirmation of Relander's summer sailboat rental.

By Gail Edmondson in Helsinki

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EDUCATION

KENTUCKY'S CLASS ACT

How a court order produced real school reform

It's early afternoon at Ross Point Elementary School, just off Kingdom Come Highway in the Appalachian coal country of Harlan County, Ky. Eight-year-old Meredith McCue sits cross-legged in a reading loft, mesmerized by *Moby Dick*. Next to a window, Aaron Huckleby aims a telescope at a ridge above the school, while nearby a classmate studies insect larvae under a microscope.

There are no rows of little chairs or rigid drills at Ross Point, and descriptive assessments have replaced letter grades. The children, who elsewhere would be assigned to grades one through three, here share the same classroom. Older pupils help younger ones, and everyone learns at their own pace. Veteran teacher Flora Shell likes the arrangement. "All the flowers don't bloom at the same time," she says.

ANALYTICAL THINKING. These 21 students, like youngsters across the state, are key players in what may be the most important laboratory for public education in the nation. In six years, impelled by a court order and spurred by big business, Kentucky has transformed its schools, turning a bargain-basement embarrassment into an increasingly effective system. It has upended curriculums, putting new emphasis on writing and analytical thinking. Rich and poor districts get the same financing, and everyone is measured against strict performance goals. "It's the [most thorough] and most coherently designed reform in the country," says Michael Timpane, vice-president of the Carnegie Foundation for the Advancement of Teaching in Princeton, N.J.

Now, at the end of the first phase of Kentucky's reforms, results are coming forth. They are compelling, if not uniformly stellar: Test scores of elementary school pupils have improved sharply, though older students are gaining at a much slower rate. Once lumped

with education losers such as Louisiana and Mississippi, Kentucky now ranks in the middle of the pack, "among a group of states we've never been with," says Robert R. Sexton, director of the Prichard Committee for Academic Excellence, a Lexington civic group that spearheaded the reforms.

Kentucky is providing critical intelligence as the nation sorts through a hodgepodge of largely unproven local strategies to shore up education. Most states are testing some form of charter schools, which free administrators and teachers from most local regulations. Some towns, such as Chelsea, Mass., have contracted out their systems to independent operators (page 94). Virginia is putting together writing stan-



LEARNING LAB

At Ross Point Elementary in Appalachia, no more rigid drills

dards for fourth and fifth graders, while Prince Georges County, Md., employs special tutors and Saturday classes to help minorities perform better in math.

All the efforts are driven by intensified public awareness, amplified by President Clinton and other politicians, of



Revolution

RADICAL STEPS...

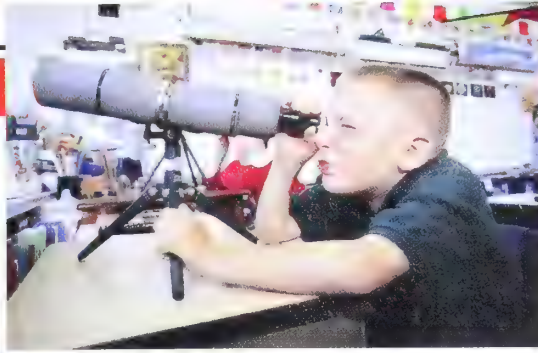
CURRICULUM OVERHAUL Most dramatically, the state merged the first three grades, putting all children aged 6 to 8 in the same classroom and letting them learn at their own pace.

SHARED OVERSIGHT Districts were required to create parent-teacher councils with power to select principals and, ultimately, to run schools. Business also played a role, contributing to curriculum development.

ACCOUNTABILITY Annual testing measures school performance. The average of scores over two-year periods determines school progress and also teacher bonuses. Faltering schools get remedial help.

FUNDING EQUITY The school budget statewide has been expanded by 60%. In the process, students in inner city and rural districts for the first time got as much state money as those in wealthy suburban schools.

America's educational shortcomings. Test results released last autumn showed that in math and science, U.S. students rank below those even in Bulgaria. Although national scores were up modestly in the last decade, many educators and corporate leaders worry that



tain counties, was outlawed.

Most important, each of the state's 1,300 schools was given a benchmark grade, based on tests of fourth, eighth, and 11th graders, and ordered to improve its rating each year until 2012.

If a school improves, its teachers can earn bonuses of up to \$2,300 each—and so far, teachers in 53% of schools have done so. If scores decline, the bonuses end, and an independent expert can be sent in to push remedies. "This test is supposed to drive pretty much everything," says David R. Johnson, schools superintendent for the city of Harlan. Harlan High School's scores fell in 1994 but have come back up since.

Kentucky's business community has helped shape much of the change. Tired of retraining new hires and worried about losing employers to states with stronger labor pools, 50 companies led by Ashland, Humana, and United Parcel Service backed the reform movement with money and lobbying. Since then, they've had a hand in curriculum reform, too, pressing for courses that teach practical, job-oriented skills.

The payoff is distant. "This was to be a 10-year-long effort," says David A. Jones, Humana's chairman. "We know that changes of this magnitude require it." One persistent area of weakness: Kentucky's high schoolers. Dropout rates haven't budged, and test scores aren't close to meeting goals. National college admissions test scores remain flat. In part, that's because the first crop of reform-era primary school graduates are just now entering 10th grade. Still, "no matter how good the students coming into the high schools are, the high schools need improvement," admits Wilmer S. Cody, commissioner of the Kentucky Education Dept.

"ELITIST." Predictably, other elements of KERA have drawn attack. Joe Nathan, director of the Center for School Change in Minneapolis, says the state's "elitist and top-down" strategy doesn't let local districts pursue alternatives such as charter schools that could spur more substantive improvement. Some parents, meanwhile, complain that the state's labyrinthine testing consumes far too much of their children's time. Others are dubious of the consolidated primary grades. In Ross Point, Tim Stevens worries that his son, Timothy, an 8-year-old at Ross Point Elementary, may not get the attention he needs in reading.

Even as they express concern, though, most Kentuckians acknowledge that their bold experiment is, at least,

THREE-IN-ONE

Consolidating classes makes sense, says Shell (left): "All the flowers don't bloom at the same time"

against the state over funding inequities. The action touched a nerve, inspiring state business leaders, news media, and civic groups to press for broader changes. "This was the last golden opportunity to get Kentucky out of its agrarian past," says Jack Moreland, now the president of Northern Kentucky University, who then was superintendent of schools in Dayton, Ky.

The State Supreme Court found for the plaintiffs in 1989, and ordered equity in funding—which the state achieved as it lifted overall school spending 60% by last year. Unexpectedly, though, it also declared the state's entire educational system unconstitutional. The court demanded that legislators come up with a plan for a top-to-bottom remake within nine months.

The result, KERA, borrowed liberally from strategies being tested elsewhere: It has employed Vermont's scheme, for example, requiring fourth graders through seniors to keep yearlong portfolios of their work; merged grades, too, had been tried elsewhere. But Kentucky was the only state to "put all of the pieces together," says Dr. Helen F. Ladd at Duke University's Sanford Institute of Public Policy.

And in many areas, it broke new ground. To improve accountability, Kentucky handed over local hiring and budgeting authority to newly elected councils of parents and teachers, who in turn select principals. Nepotism among school board officials, common especially in the state's isolated moun-

e Classroom

...YIELD MIXED RESULTS

DE-SCHOOL GOLD On state-created tests, h graders consistently have scored far higher the set targets. Fourth and eighth graders improved on national math tests.

SCHOOL SLUMP More kids are graduating, college admission test scores haven't budged, results on state tests lag far behind benchmarks. Administrators admit secondary schools need more work.

POOR PARITY Students in poor districts score as well on standardized tests as those in richer schools. Experts point to funding equity and uniform deployment of teaching resources.

PROVED CLIMATE Reforms have endured critical challenges, creating a sense of confidence across the state's education system. One long-term gain: Adult literacy, which once ranked last in the nation, is now average.

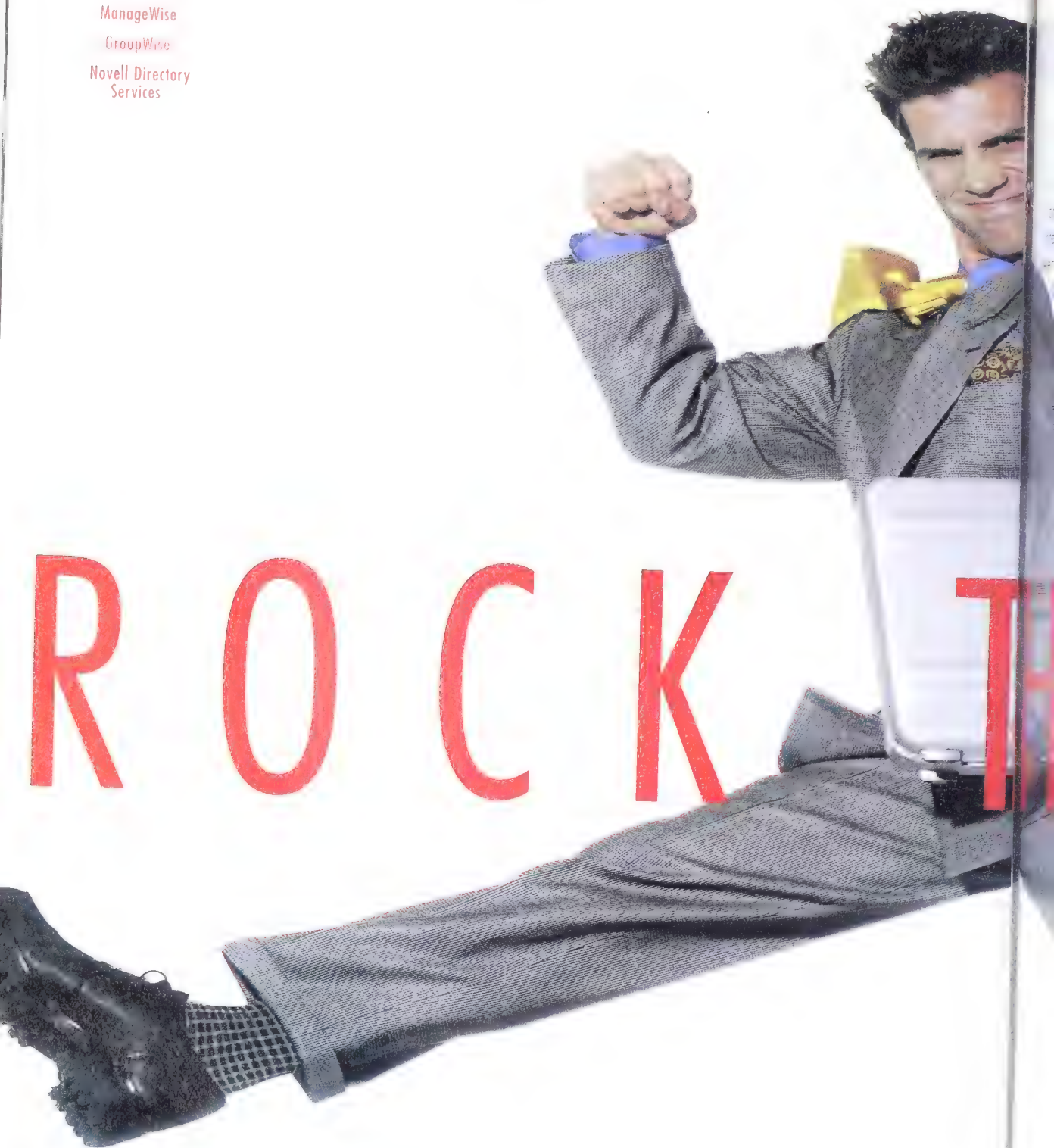
DATA: KENTUCKY EDUCATION DEPT., BUSINESS WEEK

an eroding skill base could retard U.S. economic growth and competitiveness.

Such concerns helped fuel Kentucky's transformation. More important, though, the Kentucky Education Reform Act, or KERA, was born of a 1985 lawsuit brought by 66 poor school districts



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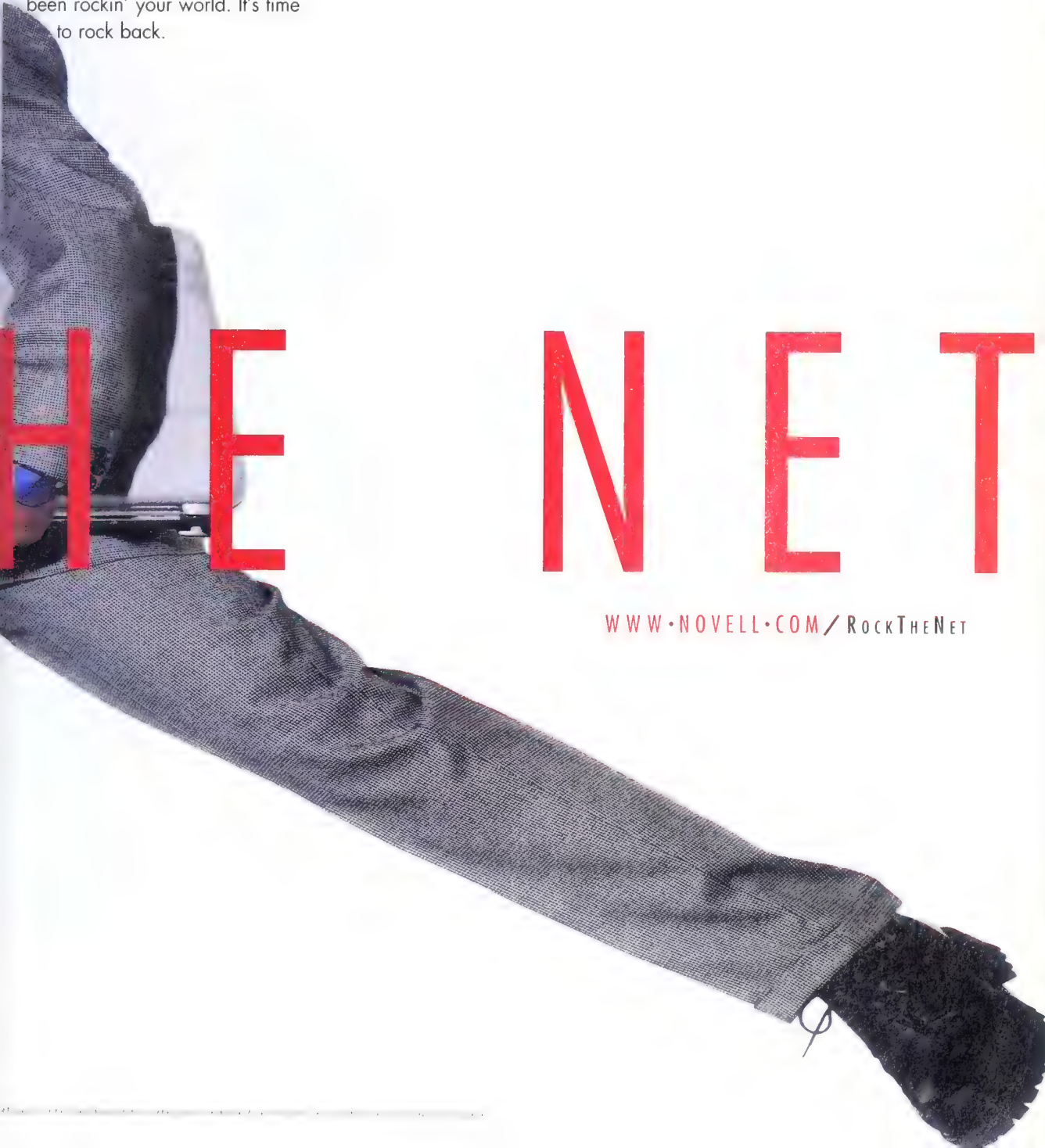
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far better than the alternative. "I left high school in 1982, and I couldn't read," admits Stevens, a gravel-truck driver. Now, adult literacy rates are up, a trickle-down effect, officials say, of the heightened educational environment. Statewide, high school completion rates are improving. And in 1996 National Assessment of Education Progress tests for math, Kentucky eighth graders scored an average of 10% higher than in 1990; fourth graders

were up 4%. Strikingly, poor districts now perform as well on most tests as wealthier ones.

Does Kentucky provide a viable model for schools elsewhere? Susan Traiman, director of the education initiative for Business Roundtable, says "there are some who feel the Kentucky story is too unique to be transferable, because it was launched by a court case and swept out the old system."

But that may be its very strength:

Improving America's schools may demand radical surgery rather than piecemeal experimentation. By dumping an inadequate system and starting from scratch, by investing more and tying funding to performance, Kentucky has boosted its children's academic prospects. Arguably, that has lifted its economic prospects as well. Those are important lessons from an unlikely place

*By Peter Galuszka
in Harlan County, Ky.*

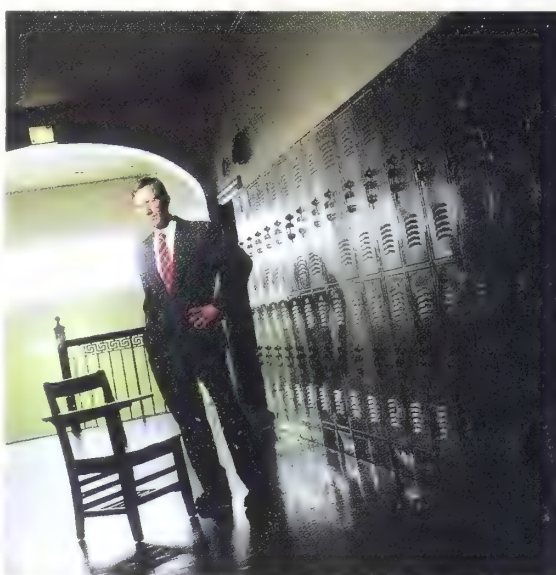
DEMOCRATIC? NO. EFFECTIVE? YES

There are definite advantages to dictatorships," says Douglas A. Sears, superintendent of schools in Chelsea, Mass. When Boston University took over the troubled school system in this small city north of Boston in 1989, it demanded carte blanche to reform as it pleased. Its reform by brute force is not perfect, but it is bringing results.

The BU-Chelsea partnership has been one of the nation's most closely watched attempts at long-term public school reform. The brainchild of former BU President John Silber, it targeted a two-square-mile city of 29,000 that for decades has been a magnet for mostly poor immigrants, with high unemployment and inadequate city services. The plan was to install competent new administrators, bring basic education to students and their parents, and improve the quality of teachers and curriculum with help from BU scholars.

In fact, BU has revamped classes, renegotiated teaching contracts, even switched cafeteria suppliers—with nary a nod to the school board, which rarely exercises the two-thirds vote needed to overrule a decision. Eight years into the experiment, even critics concede BU has helped overcome illiteracy, bad management, and chronic underfunding. The dropout rate has declined to 8%, from 20%. Last fall, the city's 5,000 students walked into sparkling new buildings, Chelsea's first new facilities since 1908.

Other measures, though, show just how difficult it is even for aggressive reformers to improve education quickly in an entrenched inner-city community. Seniors taking the



REFORM BY FIAT
Superintendent
Sears in the
Chelsea (Mass.)
schools

Scholastic Achievement Test, a college entrance exam, scored 23% below the national average last year, up from a 26% deficit in 1989. Fourth-grade test scores haven't budged, because, BU claims, most children stay in bilingual classes through grade three, limiting their test-taking abilities.

BETTER OFF. New York University education expert Robert Berne, who evaluated Chelsea in a 1996 book, says the results prove "outsiders are probably better off managing some aspects of school reform," such as BU's successful early childhood education program. But BU's autocratic approach, he says, sidesteps the community participation that is a hallmark—and a strength—of U.S. public education.

Clearly, though, Chelsea is better

off. BU has applied a sort of educational triage to the classroom. Rather than spread limited resources over all grades, the reformers focused on youngsters just entering the system and created an all-day program for 3- and 4-year-olds. BU also launched an intergenerational literacy program, which offers English lessons to 900 immigrant parents and teaches them how to help with schoolwork. Most teachers have been trained by BU professors in new teaching methods and curriculum advances.

It hasn't hurt that, since 1989, state reforms have lifted the school budget by 145%, to \$27 million. BU has kicked in \$7 million worth of teacher and administrator time, and private donations have produced an additional \$10 million. What's more, the university has brought discipline to the once highly politicized budget process.

Some Chelsea parents remain ambivalent about BU's peremptory approach. Wilma May, a mother of five Chelsea students, is ranked by administrators' quick dismissal of some complaints and worries that its emphasis on young pupils comes at the expense of high schoolers, who have endured disruptive curriculum changes. Still, she's grateful that overall, her "kids' education is better." So are others: Chelsea's school committee voted unanimously last November to extend BU's contract for five more years.

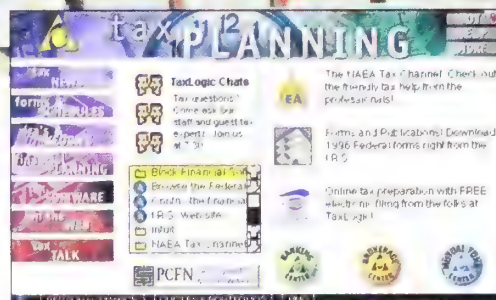
By Geoffrey Smith in Chelsea, Mass.

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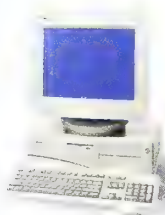
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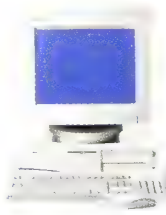
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BASEBALL

LOADING THE BASES IN NORTH CAROLINA?

The sports-hungry Triad area has a real shot at a ball club

Baseball may be the bad boy of major-league sports, but that doesn't mean nobody wants an expansion team. If the owners stick to their agreement with the players' union, there will be two new clubs awarded as early as 1999, and one of the strong emerging contenders is North Carolina's Triad.

What's a Triad? As the group of businessmen cheer-leading the push to bag a ball club will tell you, it's an unheralded metropolitan region in central North Carolina anchored by Greensboro, Winston-Salem, and High Point—home to textile, tobacco, and furniture giants. Although the Triad execs profess a passion for the national pastime, they have a bigger passion for economic development. Here's a statistic that makes them swoon: One day after the Carolina Panthers fell to the Green Bay Packers in the National Football Conference title game back in January, the Charlotte Chamber of Commerce logged in 91 business relocation inquiries, triple that of a typical Monday.

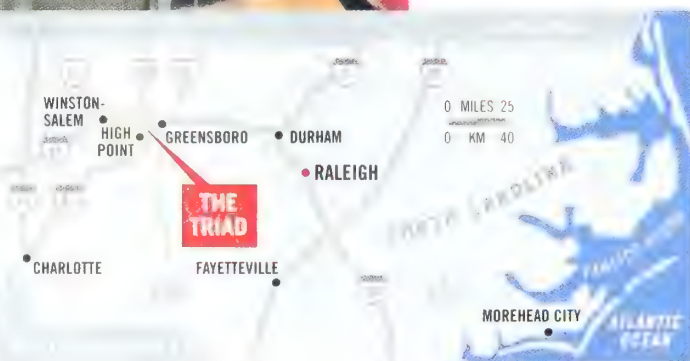
BIG GUNS. Triad boosters have more than just hopes that Major League Baseball will give them a go; they have some big reasons on their side. Two are the Charlotte Hornets, which routinely lead the National Basketball Assn. in attendance, and the equally popular Charlotte-based Panthers, which raised \$100 million for its \$190 million stadium by selling fans lifetime licenses to purchase season tickets. North Carolina is sports country.

The Triad effort also has some big guns. Jefferson-Pilot CEO David A. Stonecipher, Wachovia Bank of North

Carolina President J. Walter McDowell, and Hugh L. McColl Jr., chairman of banking behemoth NationsBank. McColl, who sits on the Jefferson-Pilot Corp. board and is one of the most influential sports financiers in America, would like Major League Baseball in his hometown



Don Beaver's money and enthusiasm, plus great demographics, mean chances are good for an expansion team



of Charlotte. But he believes the city cannot support three professional teams simultaneously—at least not for another five years. With Hornets owner George Shinn looking to raise money to build a new downtown arena (the team's current home, though only eight years old, is short on skyboxes), McColl's caution is understandable. "I am committed at the moment totally to trying to help the folks in the Triad," says McColl, whose

bank provides financing for the Baltimore Orioles, Florida Marlins, Milwaukee Brewers, and Texas Rangers.

But MLB in the Triad? Locals doubled over in laughter at the very notion when it was first introduced about 18 months ago. Michael T. Scanlon Jr., an executive with American Baseball Capital Inc., which has been trying for years to bring big-league ball to northern Virginia and which owns a minor-league team in Greensboro, sneered: "What makes the good people of the Triad feel they've got a shot at Major League Baseball when they can't even build a decent Class-A baseball stadium? I'm sorry, but it flies in the face of logic."

Not exactly. In fact, there is plenty of logic to suggest that the Triad is the front-runner. From the outset, the Triad effort has been well-organized, with

strategic connections to corporate leaders, pols, and baseball honchos. The demographics alone are compelling: the Triad has some 6.4 million people within a 100-mile radius of its center. Only suburban Washington, D.C., has more people in that range and no big league team. Two interstate highways—I-40 and I-85—put population centers in Charlotte and Raleigh 90 minutes away. Because North Carolina is considered one of the top 10 in the country. And while baseball will have 30 teams in 1998, none will be located between Baltimore and Atlanta.

NATIVE SON. Unlike recent expansion efforts in Denver and Phoenix, which both struggled initially to put credible ownership groups together, the Triad has that base covered. The man with the money is Don Beaver, a North Carolina native who two years ago

sold a chain of nursing homes for more than \$100 million.

Beaver, a pitcher in the 1952 Little League World Series, owns minor league teams in New Orleans, Knoxville, Tenn., Winston-Salem, and Hickory, N.C. Last year, he also became a minority owner of the Pittsburgh Pirates and has used that position to lobby influential owners about the Triad effort. Beaver is now courting a small owner

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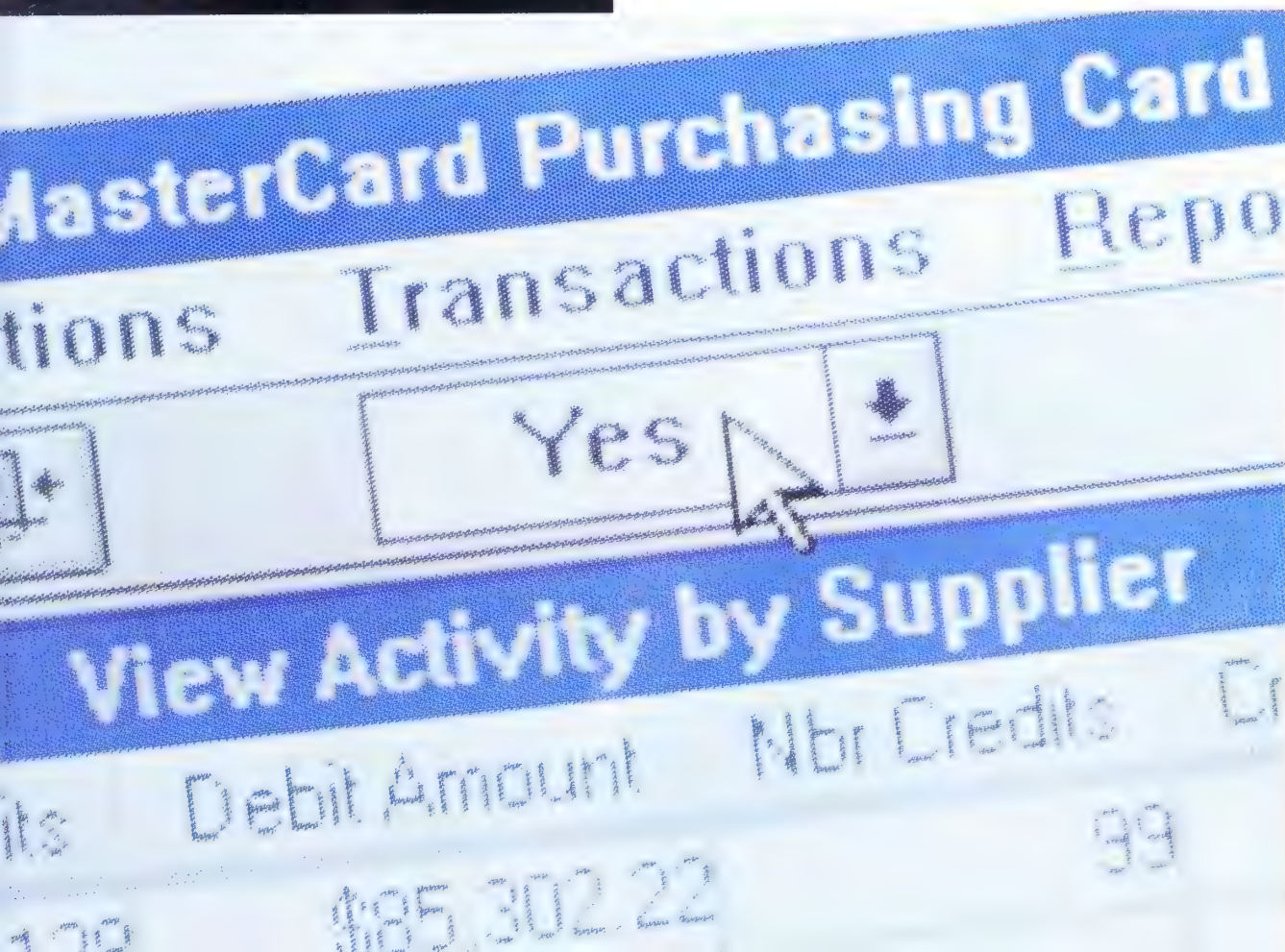
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Sports Business

ship group that will put up \$100 million toward the cost of a franchise. He has also pledged to help pay for one-third of stadium construction costs.

The Triad may also benefit from lack of competition. With Charlotte on the sidelines, the only other viable market appears to be northern Virginia. Although MLB longs to expand into Mexico, the experience in Monterrey last summer, when the New York Mets and San Diego Padres played a three-game series, was sobering: plenty of people but too much poverty. Orlando competed in the last round of expansion, but baseball is unlikely to put a team 90 miles from the new Tampa franchise. In the Midwest, only Indianapolis stands out, and it has its hands full with the NBA Pacers and NFL Colts. "Northern Virginia and North Carolina are all that's left," says Mark S. Rosentraub, an urban policy professor at Indiana University and baseball scholar. "There are no other large, underserved areas in the U.S."

However, two issues—both outside the control of the Triad organizers—may pose barriers. Although acting Commissioner Bud Selig, owner of the Milwaukee Brewers, has said baseball needs to get to 32 teams, several key owners, including Boston Red Sox CEO John Harmon, have suggested that the league may need to stick with 30 teams for 5 or 10 years. With TV revenue sharing, the owners worry about splitting the pie two more ways. And they fret about a shortage of talent.

A LUCKY PENNY? If the league waits to expand much beyond 1999, Charlotte would likely contend for a franchise, and that would certainly doom the Triad effort. Then again, the Triad might do itself in. Next summer, voters in the 12-county region will be asked to add 1¢ to the sales tax for one year to help pay for stadium construction. Organizers estimate that the tax increase will raise \$145 million. The 1¢, one-year plan is the most aggressive tax ever attempted in raising public money for stadium construction costs. For a Triad family of four with a total income of \$40,000, the tax would add up to an average of \$112 a year—and that's if they have no big-ticket purchases, such as a new 4x4.

Given the number of baseball fans who see owners as greedy and players as overpaid, and given the region's conservative nature, the tax can expect stiff opposition. If voters say no, the Triad will have to be content with minor-league baseball—and minor-league status.

*By Justin Catanoso
in Greensboro, N.C.*

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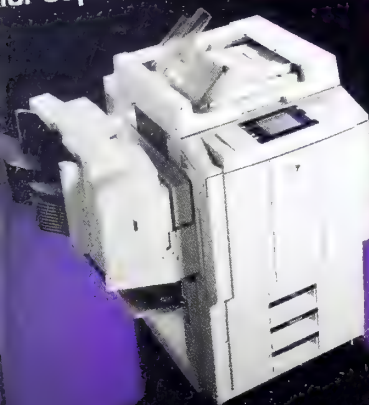
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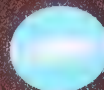
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TOYOTA'S CRUSADE

Hiroshi Okuda is retooling the company in an all-out bid to turn Toyota into the world's premier carmaker

Amid the towering pine trees and white stone courtyards of the Ise Grand Shrine, Toyota Motor Corp. played out a familiar corporate ritual last November. As they do most every fall, a handful of top executives, with their newest domestic models in tow, made the three-hour journey from their headquarters just outside of Nagoya to the spiritual home of the Shinto sun goddess Amaterasu, nestled along a dazzling stretch of Japan's Pacific coastline.

Since the mid-1980s, this meant bringing a modest five or six new cars to call down the blessings of the gods for a prosperous year ahead. But this time, an entire caravan pulled up to the 2,000-year-old shrine. Rolling in were the Ipsum and Noah minivans, the Mark II sedan, and the Windom, the domestic version of the luxury Lexus ES 300 in the U.S., plus seven other brand-new or redesigned offerings. It was one of the biggest product outpourings ever at Toyota. "We couldn't find space in the courtyard to park them all," one Toyota insider recalls with a grin.

It's an engineering tour de force that chieftains from Detroit to Stuttgart would die for. The product speedup is just one facet of President Hiroshi Okuda's broader strategy to rekindle the killer instinct at Toyota. That means extending Toyota's edge in high-speed, flexible carmaking. It means shaking up the company's insular, consensus-driven culture. It means pursuing perhaps

the most aggressive overseas expansion in automotive history. It means outflanking Detroit in emerging markets and going after the Big Three in the U.S. And it means using new designs to create excitement about the Toyota brand, which has long stood for well-built blandness. "In all sorts of areas, a big change is going on sharply and quickly," says Okuda, who at 64 still exudes the energy of a V-8 engine.

The crusade is costly. Toyota is spending \$13.5 billion

on global expansion through 2000. Then again, Okuda has a cash hoard of \$20 billion to fuel the drive. He has just wrung new savings out of Toyota, and he can profit from a weak yen to boost exports. If he spends wisely, he will create the industry's first real global organized player, a company that can use its vast manufacturing clout to customize vehicles for regional markets. Manufacturing hubs in Asia, North America, and Europe will rely on locally based suppliers and design teams to tailor vehicles to local tastes. Not only will Toyota be able to pounce faster on consumer trends and bypass regional trade barriers, it will rely on its network of cheap dollar-denominated parts and materials when the yen is strong and stoke up its exports from home when it is weak.

Okuda isn't the only one who thinks speed and range are critical. Ford Motor Co. is pursuing a global makeover, while General Motors Corp. is piecing together an assembly-and-parts network in Southeast

Global Reach

President Okuda is embarking on a \$13.5 billion expansion through 2000. Some highlights:

NORTH AMERICA: INVESTMENT \$3.3 BILLION

GEORGETOWN, KY. Capacity will jump from 380,000 to 500,000 vehicles. The Sienna minivan will join the lineup of Camry and Avalon sedans.

EVANSVILLE, IND. An all-new plant will pump out 100,000 T100 pickup trucks powered by V8 engines.

ONTARIO, CANADA Toyota will double Corolla production, to 200,000.

JAPAN AND ASIA: INVESTMENT \$4.6 BILLION

TIANJIN, CHINA Toyota wants to build an engine plant for the Charade sedan, made by 30%-owned Daihatsu.

BANGKOK, THAILAND To boost its Thai output by 30%, to 190,000 units, Toyota is expanding its Gateway plant, which makes the Soluna sedan.

MALAYSIA/INDONESIA/PHILIPPINES Toyota is spending heavily to build a web of regional suppliers to source its assembly in Thailand.

JAPAN Toyota will open 500 new dealerships and beef up marketing to take on Honda.

EUROPE: INVESTMENT \$1.9 BILLION

BURNASTON, BRITAIN Doubling production, to 200,000 units, where Carina E sedans and wagons are made.

LENS, FRANCE Toyota is weighing a possible new passenger-car factory here or elsewhere on the Continent.

Cover Story



Asia. In China, where Toyota lags behind its rivals, Volkswagen boasts a 55% market share. And Korean carmakers are adding plant capacity from Kazakhstan to Indonesia. "Our rivals are speeding up, so we have to accelerate our thinking," says Okuda. Toyota is already well-entrenched in the booming car markets of Asia, while Detroit's Big Three have the lion's share of their capacity

Cover Story

Extending a Strong Lineup

1998 TOYOTA SIENNA

Out this fall, Toyota's new minivan will face Ford and Chrysler

► **Est. price:**
Below \$24,000



which the diplomatic Toyodas shied away from doing.

Yet Okuda is unflinching in his drive to win back territory from Detroit and get much more globally. He will not be satisfied with his current global share, which is around 9.5% and which puts him behind General Motors' 17% and Ford's 13%. "Okuda's intent, by the middle of the next decade, is to see Toyota with 10% to 15% of the global auto market," figures Christopher W. Cedergren, managing director of Nextrend, a consultant in Thousand Oaks, Calif. Thanks to pricing incentives and aggressive sales to car-rental fleets, U.S. sales of Toyota's Camry sedan have vaulted 46% so far this year, making it the best seller through February. It could beat the Chevrolet Cavalier, Ford Taurus, and Honda Motor Co.'s Accord for top-selling honors by yearend.

The Toyota Corolla, and the 4-Runner and RAV4 sport-utility offerings are also selling briskly. Alarmed, Ford and Chrysler are preparing small sport-utility models to counter the RAV4. But Okuda is already planning to invade Detroit's cash-spinning minivan and large pickup-truck categories over the next several years. "The Japanese are tough competitors in any segment," says Jacques A. Nasser, president of Ford's auto operations. Exploiting the yen's weakness, Toyota has boosted exports by 17% to the U.S.

ty in the overcrowded North American and European markets.

Toyota is also turning up the heat in the U.S. Under the leadership of the founding Toyoda family, Toyota tended to be hypersensitive about its American pricing for fear of worsening trade relations. By the early 1990s, with U.S. trade officials constantly harassing the Japanese government, Toyota execs stopped talking about Global 10, a code referring to Toyota's goal of grabbing 10% of the global market. That would have meant ramping up U.S. share,



from its factories in Toyota City, Japan. Detroit is howling. Yet even though Toyota recently announced an average price hike of \$57 on most models, the momentum is unlikely to slow. U.S. sales are up 32.8% this year and may reach 1.2 million vehicles. That would come to some \$24 billion.

As the rest of the automotive world is quickly learning, Okuda isn't your typical, self-effacing Toyota man. For one thing, he's not one of the Toyodas, the clan that founded and ran the company almost nonstop for decades. In 1995, family elders tapped Okuda to take over the company from 68-year-old Tatsuro Toyoda, who had been waylaid by a stroke at a time when the company seemed to have lost its vaunted edge. Now, the betting is that Okuda will not step down until some time after 2000.

A six-footer with longish sideburns and a jaunty manner, Okuda conveys a slightly quirky air. After spending his entire career at Toyota in jobs ranging from accounting and purchasing to international and domestic sales, he has few rivals in his knowledge of the business. Nor in his intensity. He's a nonstop manager who test-drives every Toyota under development and many of his rivals' products, makes about 10 trips a year overseas to conduct his own "intelligence gathering," and personally vets every television ad before it airs.

He also has a penchant for blunt talk. "He doesn't mind if his points are very clear, which



LEXUS SLV CONCEPT

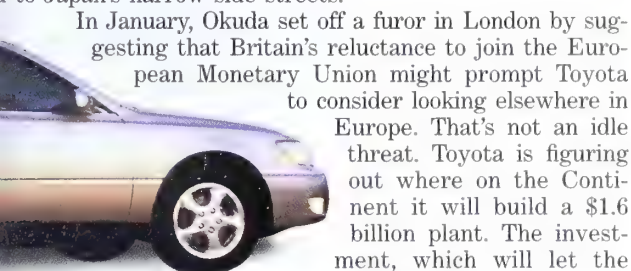
A sport utility with car-like handling and spiffy interior to extend the Lexus brand, due in '98

► **Est. price:** \$35,000





different from the hazy communications we are used to hearing from Japanese executives," says auto analyst Maryann Heller of Furman Selz Inc. Two years ago, Okuda called his Detroit rivals "stupid" for trying to import bulky cars ill-suited to Japan's narrow side streets.



LEXUS 1997 ES 300

Wildly popular entry-level luxury sedan. Very smooth handling
Base price: \$30,485

back in the mid-1950s, at Hitotsubashi University in Tokyo, Okuda—a black belt in judo—won a 10-school competition with his *uchimata* move, a side kick to the lower legs. It was a good way to bring a bigger man down. "He was our hero," says teammate Teruhiko Suzuki.

Toyota has needed Okuda's no-holds-barred approach for some time. In the early 1990s, Toyota was developing what the Japanese call "big-company disease." Glacial decision-making and companywide arrogance

NEWPORT BEACH, CALIF.: were resulting in major mistakes. Recruiting more U.S. designers is a priority

wanted the sexy, off-road stuff. It also botched some key product launches. It introduced the T100 pickup truck in the U.S. with an underpowered engine, and a 1995 redesign of the Corolla for the Japanese market made the car look flimsy and cheap. Worse, costs were climbing as the yen strengthened and profits dropped as Japan's recession deepened.

ULTRA FRUGAL. Toyota started cutting costs before Okuda took command, but he is not letting up. Since 1995, the company has wrung nearly \$2.5 billion in costs from the system, mostly by figuring ways to use fewer parts and stripping waste out of production. This is an astounding feat, considering how frugal Toyota was to begin with: To save on lighting bills, for example, it has long been policy to cut the power to company dormitories during working hours.

Yet Okuda has also ordered Toyota managers to come up with \$800 million a year in extra cuts every year for the foreseeable future. Now, with the yen having fallen 50% vs. the dollar, it's payday. Pretax profits are expected to rise 82%, to \$5 billion, on \$97 billion in sales. And even if the yen strengthens again, analysts figure Toyota has lowered its breakeven point on manufacturing to at least 80 yen to the dollar. Little wonder the stock has climbed 80% from its 1995 low.

The rebound may be the

1997 TOYOTA CAMRY LE

Could be the U.S.'s best-selling car in '97. More features and a lower price than the '96
► Base price: \$20,348



start of a new nightmare for Detroit. Okuda now plans a "Great Leap Forward" in North America. The goal: double total vehicle capacity, to 1.2 million units, by 1998. Toyota is expanding capacity at its Georgetown (Ky.) plant, the production base of its Camry and Avalon sedans. And this fall, it will also serve as the launching pad for the Sienna minivan, based on the Camry's V-6 engine and chassis parts. Analysts think the Sienna will be the first credible Japanese entry in this \$28 billion minivan segment. With sliding rear doors and front-wheel drive, it will probably be priced below \$24,000.

In 1999, Toyota's new \$700 million plant in Evansville, Ind., will start pumping out 100,000 T100 pickup trucks. J. Michael Losh, GM's chief financial officer, remembers how poorly the original T100 did. "So far, it has been an abject failure for them," Losh says. "But having learned how not to do it, they'll learn and be tough." The new T100 will have the roomy cabin, rugged suspension, and



TOYOTA RAV4

Youthful zip in a sport utility. Off to a strong start. Faces hot Honda models in the U.S.
► Base price: \$15,538



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extra horsepower Toyota pickups have lacked.

Meanwhile, sales of the present product lineup are red-hot. The Camry sells for about \$1,500 less than last year's version. And Toyota is now supplementing its stock of U.S.-made Camrys with Japan-made models, thanks to the cheaper yen. "If they start importing, there's no way we can beat them," says Ross H. Roberts, general manager of the Ford Div. of Ford Motor Co. The success of the newly redesigned Lexus ES 300 made it hard for Cadillac to get its new rival entry off the ground (page 114). After years of stagnation, Toyota's U.S. market share so far this year has advanced more than two points, to 8.6%, and likely will head higher when the Sienna debuts.

If Toyota has a problem in the U.S., it's customer service: Buyers may love the products, but they aren't happy with the way they're treated. Apart from Lexus, consumers rank Toyota dealers just average, citing everything from indifferent or shabby treatment to repeated trips to the service bay to fix simple problems. Only 42% of Toyota buyers go

back for another one, while General Motors manages to keep 62% of its buyers in the

Cover Story

fold. So Toyota is embarking on an ambitious program to woo its U.S. buyers. It's changing incentives to reward agents for customer service, teaching staff how to diagnose mechanical problems swiftly over the phone, and speeding up delivery time of vehicles. Toyota will even sell over the Internet to those who hate walking into a showroom.

In Asia, the company will sell sturdy, simply designed cars to withstand the rigors of local roads. To boost Asian output by 30%, to 600,000 units, by 1998, Okuda wants a low-cost network of regional supply lines and assembly hubs. For instance, Toyota Motor Thailand's plant in Samrong takes in power-steering components from affiliated suppliers in Malaysia and engines in Indonesia for the Corona and Corolla sedans the company sells to the whole region.

Toyota's strategy of customizing its cars to suit local tastes



INNOVATIVE MARKETING: A new Tokyo dealership hopes to lure young, affluent Japanese

is off to a strong start as well with the successful January launch of its Soluna four-door sedan. Built in Thailand with 700 locally made parts, it boasts the kind of fuel efficiency and compactness that will appeal to the swelling urban working class in Bangkok. So should its price, starting at about \$13,000, which undercuts Honda's City. Toyota's market-leading share in Southeast Asia should rise from 21% to 25% in 2000 even as the competition heats up.

BOTTLENECK. Of course, throwing gobs of money at problems is one thing. Pulling off a cultural overhaul to make traditionally shackled Toyota more multinational in outlook is far trickier. Okuda concedes it might take years. He has intensified efforts to flatten the corporate pyramid at headquarters, to tether pay to performance rather than seniority, and to promote a legion of frustrated thirtysomething managers hired during the 1980s boom. Many older executives have been stripped of fancy titles and given narrower responsibilities to make way for younger execs.

Yet old ways die hard. Toyota hasn't managed to hire many foreign designers as Okuda would like. And the company's 50-man board is still packed with elders reared in the ways of *nemawashi*, where consensus is built up slowly a big decisions made glacially. There's precious little of the spirited kind of debate that can take a good idea up another notch or head off problems early. "To be honest, I'd like to do away with *nemawashi* entirely," says Okuda.

Still, over his long career, Okuda has won the deep respect of many insiders. He spends a third of his time at Toyota City, often chatting it up with the company's 10,000-plus engineers about their latest work. He makes a special point of meeting with the younger engineers, who appreciate how well Okuda, an accountant by training, can grasp the technical details. Toyota's 5,000 Japanese dealers love him for his recent moves to boost advertising spending by 30% and to get their advice on marketing.

Okuda has never benefited from any family connections. The Okudas grew up outside Nagoya, where Hiroshi's father managed a small



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securities company. Yoshi was very self-motivated. "After everything in the family fell apart, he often got up in the middle of the night to study," recalls his brother Tsutomu Okuda, now president of Okumaru Inc., a department-store chain.

Early on, Okuda developed a deep intellectual curiosity. At judo weekend retreats, his pals guzzled down sake, Okuda would be engrossed in some book, his friend Suzuki recalls. Even these days, Okuda manages to devour about a dozen or so books a month. He likes piling through political memoirs, particularly translated works of Henry Kissinger and Margaret Thatcher. And "when I'm bored, I go back to my favorites by Che," he says. Okuda can also act in unorthodox ways. In the early 1970s, when he ran Toyota's Philippines operations, he once crossed a jungle to meet with leftist guerrillas to hear what they had to say.

Okuda has the backing of the powerful Toyoda clan, particularly the 83-year-old patriarch, Eiichi, and current chairman, Shoichiro. Okuda pushed hard to pry loose spending to build a plant in Taiwan. It involved protracted negotiations, and Eiichi had his doubts. But Okuda prevailed, and Toyota's midsize Corona has been a big hit in Taiwan. Okuda was also the architect behind the 1986 construction of Toyota's Kentucky plant, now its biggest in the U.S.

MOVES. Okuda, together with Shoichiro Toyoda, also led a big behind-the-scenes effort in defusing the U.S.-Japan trade row back in 1995. In Washington trade wars were ready to slap a 100% punitive tariff on Japanese luxury vehicles, the two quietly closed Toyota's future purchasing plans for U.S. parts. Other companies followed. The infuriated hard-liners at the U.S. Commerce Department's powerful Ministry of International Trade & Industry, it ended the crisis.

But Okuda can't focus simply on the U.S. and Europe. He has his hands full at home, where Toyota has been blindsided by Honda, a company almost its size. Always a poor rival in the North American market, Honda has taken a big bite out of Toyota's minivan sales with its Odyssey and CR-V four-wheel-drive sport utility. Last year, Toyota's market share fell below 40% for the first time in years as buyers flocked to the CR-V and other trendy vehicles. "Everybody wants a car that can drive around the foot

of Mt. Fuji," laments Yatsuhiko Itakura, general manager of Toyota Tokyo Corolla.

Convinced that losing even a few points of share is a dangerous development, Okuda has thrown down the gauntlet. The company's three major design studios in Toyota City have pumped out an array of rival entries, such as the Ipsum minivan and Spacio station wagon. And he has stepped up dealer incentives, estimated at \$1,500 per vehicle, to send these offerings flying out of the showroom. In February, Toyota's market share jumped to 39.5%, still shy of Okuda's 40% goal. Still, few doubt he will pull out all the stops to recover this mark by year-end. "Toyota will not just sit back and do nothing," vows Kanji Kurioka, executive vice-president for domestic sales.

To make sure Toyota is never caught off guard again, Okuda keeps pushing his engineers to speed up the time it takes to turn a styling concept into the real thing. Until recently, Toyota's 24-month product-development cycles were the gold standard. Ford and others had been scrambling to reach the same level.

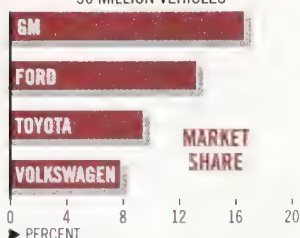
WARP SPEED. But Toyota terrified rivals last year by announcing the development of its recently launched Ipsum in a record 15 months. "Actually, it was 14½ months," brags Akio Wada, an executive vice-president, head of research and development, and one of the most respected executives at Toyota. To speed things up, Wada and his team focused on the underbody development first—including the powertrain and chassis—and worked off of only one prototype instead of two. Also, Okuda and Wada made sure the design-and-production engineers collaborated early in the process, saving months of time.

Unless there's a breakthrough in engineering, Wada figures his designers have probably hit the human limit for product development. That's why Okuda is spending big on the company's PC 21 program to produce an engine with fewer parts made at a cost one-third lower than current engines. Wada is mum on the subject, but a top finance official created a stir late last year by suggesting Toyota is close. Okuda is doing everything possible to make it happen. Some observers in Detroit think this may simply be a low-tech, pushrod engine. But others suspect that Toyota will figure out how to make its superefficient, high-tech overhead cam engine with far fewer parts. Such a feat would significantly widen the efficiency gap between Toyota and Detroit. The company has also announced a breakthrough in making affordable hybrid engines that rely on both electric batteries and gasoline.

If all this weren't enough, Okuda recently shocked analysts by vowing to generate

THE GLOBAL RACE

1996 WORLDWIDE MARKET*
50 MILLION VEHICLES



*CALENDAR YEAR, FOR LIGHT VEHICLES
DATA: DRI/McGRAW-HILL, COMPANY REPORTS



EVANSVILLE, IND.: Okuda and a local elementary-school student at the groundbreaking of a new truck plant

Cover Story

10% of company sales from nonauto businesses by 2000—some \$10 billion in revenue. Toyota already has a sizable prefabricated-housing business and stakes in 30-odd telecommunications and broadcasting outfits. The company is

Cover Story

also making a big push into leisure boats and looking seriously at producing

engines for the small-aircraft industry. It seems dicey, considering all the competition in autos. But Okuda figures that industries prosper and then decline in half-century cycles. If that holds true for autos, he wants Toyota to be prepared.

Add it all up, and it's clear that Okuda has Toyota more at uncharacteristic speed. The burning question is how Toyota can keep it up. Okuda admits he's worn out from travel schedule and often complains about the heavy security entourage that can cut him off from the rank and file. Better to count on this most unusual Japanese executive cast a meticulous eye on the thousands of tiny details make a great car company.

By Brian Bremner in Tokyo, with Larry Armstrong in Angeles, Kathleen Kerwin and Keith Naughton in Detroit and bureau reports

WILL LEXUS RUN RINGS AROUND CADDY'S NEW BABY?

Cadillac execs in Detroit were looking for an import stopper—a luxury sedan that would appeal to American baby boomers hooked on sleek foreign models. The influx of new buyers would also help ease Cadillac's dependence on the aging owners of the company's main model, the Deville. So they gussied up an Opel Omega from parent General Motors Corp.'s European subsidiary, showed it off at auto shows for a couple of years, and launched it last fall with a quirky ad campaign as the Catera, the Caddy that zigs.

Catera never got much of a honeymoon. Last October, Toyota Motor Corp. introduced a redesigned version of its entry-level luxury sedan, the industry-leading Lexus ES 300. To make life even more difficult for the likes of Cadillac, the Japanese carmaker cut \$2,500 off the sticker price. At \$30,395, the

ES 300 undercut the Catera by \$240. By the end of January, Lexus was selling more ES 300s a month than Cadillac had sold Cateras since its launch.

STALLED. To be sure, the ES 300 is an established brand, while Cadillac is starting from scratch with the Catera. And Cadillac is continuing to sharpen its marketing skills. It quickly dumped a commercial shown during the Super Bowl featuring model Cindy Crawford in a leather miniskirt that irked some of the professional women Catera was trying to attract. And in response to dealer demands, Cadillac

began running print ads comparing Catera's price and features to rival offerings, including the ES 300.

In another nod to its dealers, Cadillac in late January added a factory-sponsored lease program that cut monthly payments on a Catera from \$452 to \$399. That amounts to a subsidy of \$4,100 per car, says Arthur M. Spinella, vice-president of CNW Marketing/Research Inc. in Bandon, Ore. Rivals say such a deep rebate on a four-month old car is a sign of desperation. But GM executives insist the new lease

long. The feeling stems from Cadillac's reputation for promoting cars at auto shows and then abandoning them, and for products, such as the Allante convertible that are introduced and then disappear. Says

Spinella: "No one wants to be stuck driving an orphan."

One bitter-sweet advantage for Catera: Toyota can't build ES 300s fast enough to meet customer cravings for them. Sales have been running 20% higher than Toyota expected, so dealers have only a five-day supply, compared with 66 days for the Catera. Toyota will try to remedy that later this year by building the ES 300 in

its Kyushu factory as well as in Toyota City.

Meanwhile, instead of waiting, some would-be ES 300 buyers are de-

CATCH-UP: Lease deals—and a shortage of Lexus ES 300s—may help Caddy

flecting to the Catera. "If we can't get them an ES 300 in a reasonable time, rather than lose a customer, we'll show them the Catera," says Kenneth Greene, general manager of Silver Star Motor Car Co., a dealership in Thousand Oaks, Calif., that has both Lexus and Cadillac franchises. "And some who have looked at the Catera have bought one." For the newest Caddy, every little bit helps.

By Larry Armstrong in Los Angeles, with Kathleen Kerwin in Detroit

simply matches deals they say some Lexus dealers are offering on the ES 300. In any event, Catera sales in February jumped to 2,232 cars. Still, Lexus sold 4,126.

While the leasing program is helping, Cadillac must also assure buyers that the Catera is here to stay. In an attitude study among people in the market for near-luxury cars, CNW Marketing/Research found that most of them were skeptical that Cadillac would stand behind the Catera for

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that you can integrate ideas with knowledge to change
forever the way business approaches a challenge.
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FIRST
BOSTON

AFTER THE '96 FIREWORKS '97 LOOKS PRETTY DRAB

It's not exactly a disaster, but you can forget about those 30% returns

For the past two years, making money in mutual funds seemed no harder than writing a check. But 1997 is unfolding as a different story. Interest rates are pushing higher, small-cap stocks are heading lower, and prices for high-tech stocks are in a near-meltdown. As a result, fund returns earned so far this year are barely in the black. The total return for the average equity mutual fund is just 1.1%, vs. 7.1% for the Standard & Poor's 500-stock index (through Mar. 24). Fund returns are prepared for BUSINESS WEEK by Morningstar Inc.

But behind those averages are some wide divergences in performance. Most funds that invest in large-cap stocks are

still faring well. That's because investors have been increasingly flocking to large-company stocks like those in the S&P 500, or buying index funds outright. The Vanguard Index 500 Portfolio, which replicates the S&P 500, is now the second-largest equity mutual fund and is taking in cash at a rate of over \$200 million a week. As more investors buy S&P 500 funds, more money is spent on those same 500 stocks, and the harder it becomes to beat the index. All but two of the 10 largest equity funds are trailing the S&P 500 index (table).

Returns drop off quickly for funds that invest in mid-cap and small-cap stocks. Worst of all are the results from the small-cap growth funds. They're

down over 9%, even worse than the turns from the Japanese funds, which are suffering from a sinking yen in addition to sagging stock prices. Even pure technology funds posted better turns, down 6.9%, because on average they own much larger companies than the small-cap growth funds.

The poorest-performing funds for the first quarter include a host of well-known small-cap growth funds that soared in years past: PBHG Emerging Growth, American Century-20th Century Giftrust, and PIMCO Opportunity funds. The three are down over 10% each (table). "We buy the companies with the highest absolute growth rates and when the market gets apprehensive," says PIMCO's chief investment officer.

The Best Returns

TOTAL RETURN*		TOTAL RETURN*	
AMERICAN HERITAGE	51.79%	MORGAN STANLEY EMERGING MARKETS A	11.51%
LEXINGTON TROIKA DIALOG RUSSIA	46.44	EV MARATHON EMERGING MARKETS	11.08
MERRILL LYNCH MIDDLE EAST/AFRICA B	21.74	GT LATIN AMERICA GROWTH A	10.80
MORGAN STANLEY LATIN AMERICAN A	18.27	LEGG MASON EMERGING MARKETS PRIM.	10.56
MERRILL LYNCH LATIN AMERICA B	17.68	INVESCO STRATEGIC FINANCIAL SERVICES	10.40
TCW/DW LATIN AMERICAN GROWTH	17.57	RYDEX NOVA	10.37
T. ROWE PRICE LATIN AMERICA	17.43	JOHN HANCOCK REGIONAL BANK B	10.22
GOVETT LATIN AMERICA A	17.15	SELIGMAN HENDERSON EMRG. MKTS. GR. A	10.16
FIDELITY LATIN AMERICA	16.09	EV MARATHON GREATER INDIA	10.15
SCUDDER LATIN AMERICA	16.03	QUANTITATIVE FOREIGN FRONTIER ORD.	10.06
FEDERATED LATIN AMERICAN GROWTH A	15.94	U.S. GLOBAL LEADERS GROWTH	9.85
INVESCO LATIN AMERICAN GROWTH	15.69	SSGA EMERGING MARKETS	9.74
CALVERT NEW AFRICA A	15.55	RESERVE LARGE-CAP VALUE EQUITY A	9.61
KEYSTONE FUND OF THE AMERICAS B	15.20	TOCQUEVILLE INTERNATIONAL VALUE	9.48
IVY LATIN AMERICA STRATEGY A	14.57	FIDELITY SELECT HOME FINANCE	9.46
TEMPLETON LATIN AMERICA I	14.29	CENTURY SHARES	9.33
VONTOBEL EASTERN EUROPEAN EQUITY	13.36	NICHOLAS-APPLEGATE EMRG. CNTRY. A	9.30
BT INVESTMENT LATIN AMERICAN EQUITY	13.21	MONTGOMERY EMERGING MARKETS R	9.23
FIDELITY SELECT REGIONAL BANKS	13.14	PHILADELPHIA	9.21
FEDERATED EMERGING MARKETS A	12.92	PIONEER EMERGING MARKETS A	9.14
EXCELSIOR EMERGING AMERICAS	12.12	AMSOUTH EQUITY	9.09
OAKMARK SELECT	12.00	LONGLEAF PARTNERS REALTY	9.09
DELAWARE EMERGING MARKETS A	11.75	FIDELITY SELECT FINANCIAL SERVICES	8.98
SIFE TRUST I	11.72	GIT WORLDWIDE GROWTH	8.91
SCUDDER EMERGING MARKETS GROWTH	11.59	MERRILL LYNCH DEV. CAP. MKTS. B	8.79

Emerging markets funds move to the head of the pack, especially those focusing on Latin America and Eastern Europe

these are the stocks that get the most," says Gary L. Grim, chief investment officer of the PBHG funds. "But over time, we've found the returns are worthwhile to live through the volatility." So don't expect the managers of these beaten-down funds to start investing any differently. "The worst thing to do is change the character of your fund," says Glenn Fogle, lead manager of Giftrust.

CREAM. Ironically, the quarter's best-performing fund, American Heritage Fund, is classified by Morningstar as a small-cap growth fund, but it's in a class all its own. A onetime high-flier, the fund had \$150 million in assets in 1993. Then it plunged in 1994, and by the end of 1996, the fund's net asset value (NAV) was down 57%. Investors flocked in droves during those years, which contributed to the losses. Portfolio manager Heiko H. Thieme says he loaded many winners such as IBM and Philip Morris to meet redemptions, leaving large, illiquid positions in obscure companies. One such holding, the Irish biotech firm Senetek PLC, now comprises half the fund's \$20 million in assets. The stock's nearly tripled this year, and it's the reason for the fund's rebound. The firm makes beauty creams, aging skin, and its male impotence

Big Funds Trail the Market

FUND	NET ASSETS BILLIONS	TOTAL RETURN*
FIDELITY MAGELLAN	\$53.8	3.16%
VANGUARD INDEX 500 PORTFOLIO	34.6	7.20
INVESTMENT COMPANY OF AMERICA	32.8	6.76
WASHINGTON MUTUAL INVESTORS	27.7	7.81
FIDELITY GROWTH & INCOME	26.3	5.37
FIDELITY CONTRAFUND	25.0	1.77
FIDELITY PURITAN	19.4	4.93
AMER. CENT.-20TH CENT. ULTRA INV.	19.0	1.53
VANGUARD/WINDSOR	18.1	5.91
VANGUARD/WINDSOR II	17.3	5.83

*APPRECIATION PLUS REINVESTMENT OF DIVIDENDS AND CAPITAL GAINS BEFORE TAXES, JAN. 1-MAR. 24, 1997

DATA: MORNINGSTAR INC.

drug is currently in trials in Great Britain.

Still, American Heritage Fund is more of a fluke than a harbinger of better times for small-cap growth funds. This year's fund returns are a continuation of trends that began in the middle of 1996. That's when small-cap stocks peaked and lost their leadership position in the bull market. After the market swooned in early summer, the blue-chips came back like gangbusters while small-caps and mid-caps struggled and many ultimately sank. Since mutual funds, on average, invest in smaller companies

than are in the S&P 500, their results have lagged as well.

The performance pattern in international equity and bond funds is a carryover from 1996 as well. Diversified emerging markets funds are beating the more mainstream foreign funds. Likewise, emerging markets bond funds are far ahead of general international bond funds. They're leading domestic convertible and high-yield bond funds as well. Both taxable and tax-free funds had a break-even quarter, with interest income offsetting declines in NAV caused by rising rates.

For most investors, the first quarter's returns are more disappointing than disastrous. There's nothing yet to suggest the public has lost its appetite for funds. In the first two months of 1997, equity funds netted some \$50 billion, a pace that, if kept up through the year, would certainly set a new record. But Robert Adler of AMG Data Services Inc. says the pace is slowing. He says equity funds only took in about \$6 billion in the first two weeks of March, and investors are, on balance, pulling out of the aggressive small-company funds.

Sure, savvy investors should be able to earn more. But how? Riding the crest of the index boom? That's what they're doing at Flex-funds Muirfield

The Worst Returns

	TOTAL RETURN*		TOTAL RETURN*
CALVERT STRATEGIC GROWTH A	-26.42%	PBHG SELECT EQUITY	-15.26%
PARKSTONE SMALL CAP. INV. A	-20.86	DOMINION INSIGHT GROWTH	-15.25
PBHG EMERGING GROWTH	-19.40	WARBURG PINCUS JAPAN OTC COMM.	-15.03
PIMCO OPPORTUNITY C	-19.39	PERKINS OPPORTUNITY	-14.72
AMERICAN CENT.-20TH CENT. GIFTRUST	-19.27	PIN OAK AGGRESSIVE STOCK	-14.70
IAI EMERGING GROWTH	-18.89	FIDELITY SELECT NATURAL GAS	-14.69
BB&T SMALL COMPANY GROWTH A	-18.78	STEIN ROE CAPITAL OPPORTUNITIES	-14.41
PBHG CORE GROWTH	-18.67	VAN WAGONER POST-VENTURE	-14.40
GOVETT SMALLER COMPANIES A	-18.59	VAN WAGONER MICRO-CAP	-14.38
FORTIS ADVANTAGE CAP. APP. A	-18.58	FIDELITY JAPAN SMALL COMPANIES	-14.23
TCW/DW SMALL CAP. GROWTH	-18.28	MFS AGGRESSIVE SMALL CAP EQUITY A	-14.22
VAN KAMPEN AMER. CAP. AGGR. GR. B	-18.04	PHOENIX SMALL CAP A	-13.94
PBHG GROWTH	-17.66	PUTNAM OTC & EMERGING GROWTH A	-13.89
OBERWEIS EMERGING GROWTH	-17.39	BERGER NEW GENERATION	-13.71
COMPASS CAPITAL SM. CAP. GR. A	-17.23	FIRST AMERICAN TECHNOLOGY B	-13.71
IVY GLOBAL SCIENCE & TECHNOLOGY A	-17.13	IVY EMERGING GROWTH A	-13.64
VAN WAGONER EMERGING GROWTH	-16.86	NICHOLAS-APPLGATE EMRG. GROWTH C	-13.45
JOHN HANCOCK DISCOVERY B	-16.69	SHELBY	-13.36
STEADMAN TECHNOLOGY GROWTH	-16.67	MATTHEWS KOREA	-13.22
TCW/DW MID-CAP EQUITY	-16.65	VICTORY SPECIAL GROWTH	-13.15
AMERICAN CENT.-20TH CENT. VISTA INV.	-16.20	RESERVE EMERGING GROWTH A	-13.15
PBHG TECHNOLOGY & COMMUNICATIONS	-15.89	FIDELITY SELECT DEVELOPING COMM	-13.12
PBHG LIMITED	-15.85	KEY SBSF CAPITAL GROWTH	-12.96
STRONG SMALL CAP	-15.73	OVERLAND EXPRESS STRATEGIC GROWTH A	-12.87
JOHN HANCOCK SPECIAL EQUITIES B	-15.39	STAGECOACH AGGRESSIVE GROWTH A	-12.83

Many highfliers of the last two years are now logging large losses. Most are small-cap growth or technology funds

Fund, which has 80% of its assets in an S&P index fund. "Our discipline tells us to go with the funds that are performing best," says Robert S. Meeder Jr., the portfolio manager. Bottom-fishing among the bludgeoned small-cap growth funds? That's an interesting contrarian bet, but there are few signs that the bear market for these funds is over.

Since growth stocks are on the ropes, many fund strategists see the best opportunities in "value" funds. These funds buy stocks with price-to-earnings ratios and price-to-book value ratios that are below the market average. Some of the best performers for the quarter are from the value camp—the Oakmark Funds managed by Chicago-based Harris Associates. The Oakmark Select Fund, launched Nov. 1, is up 25% since inception and 12% so far this year.

BIGGER BITE. Portfolio manager William Nygren invests in just 20 stocks, with half the assets in the five-largest holdings. The newcomer has scored big with takeovers, First USA and McDonnell Douglas. Such concentration has risks: An investment gone bad will take a bigger bite out of the portfolio. Because it invests in smaller companies, sister fund Oakmark Small Cap spreads its money over 50 stocks. That fund is up 8.2% this year on top of last year's 39.8%. Oakmark's management says it will consider closing the fund, now with \$648 million in assets, when it reaches \$750 million.

To liven up their portfolios, investors might look to the emerging markets, especially to Latin America, Eastern Europe, and Africa. The Latin funds, the only fund category to earn double-digit returns in the first quarter, are on a roll that began last year. Now, the whole region is picking up momentum. "People

The Bond Fund Leaders			
TAXABLE FUNDS		TAX-FREE FUNDS	
	TOTAL RETURN*		TOTAL RETURN*
PHOENIX EMERGING MKTS. BOND A	5.80%	SOUTH DAKOTA TAX-FREE	1.14%
SCUDDER EMERGING MARKETS INCOME	5.29	STRONG HIGH-YIELD MUNICIPAL BOND	1.11
T. ROWE PRICE EMERGING MKTS. BOND	4.81	DAVIS TAX-FREE HIGH INCOME B	1.08
FIDELITY NEW MARKETS INCOME	4.38	LORD ABBETT TAX-FREE INCOME WA A	1.04
ASTRA ADJUSTABLE U.S. GOVT. SECS. I	4.26	VOYAGEUR NATIONAL HIGH-YIELD MUNI.	1.00
FIDELITY ADVISOR EMERGING MKTS. INC. T	4.22	OCEAN STATE TAX-EXEMPT	0.98
BEAR STEARNS EMERGING MKTS. DEBT A	4.00	RIVERSIDE CAP. TN MUNI. OBLIGATIONS	0.95
NORTHEAST INVESTORS	3.98	COLORADO BONDSHARES	0.89
MORGAN STANLEY WORLDWIDE HI-INC. A	3.77	EV MARATHON MS MUNICIPALS	0.89
BT INVESTMENT GLOBAL HIGH-YIELD SECS.	3.70	ND TAX-FREE	0.87
AVERAGE OF 1,062 FUNDS	-0.03	AVERAGE OF 1,166 FUNDS	-0.03

*APPRECIATION PLUS REINVESTMENT OF DIVIDENDS AND CAPITAL GAINS BEFORE TAXES, JAN 1-MAR 24, 1997

DATA: MORNINGSTAR INC.

who were reluctant to invest because of the Mexican crisis of 1995 saw last year's performance and are coming back," says Paul H. Rogers, a manager at the Scudder Latin America Fund. Most of all, investors are back for the right reasons. "Economic growth has returned, and is accelerating while inflation is coming down," adds Alex de Bethmann, portfolio manager of the Federated Latin American Growth Fund.

Investors are finding opportunities even in Africa, the world's poorest continent. One big winner is Egypt, where the stock market is up about 50% in the last three months. "Inflation is coming down, GDP growth is over 4%, and the government is starting to privatize business," says Clifford D. Mpare, portfolio manager of the Calvert New Africa Fund, up over 15.6% this year. About half the fund is invested in South Africa,

which is rebounding after a poor 1996. Industrial stocks are up about 12%, and the rand is one of the few currencies appreciating against the dollar.

U.S. investors shouldn't have to depend on exotic markets to make money this year. Even with a less-than-notable first quarter, many still forecast good turns for 1997. "I'm not running for cover," says Eric Kobren, a fund analyst who just launched the Kobren Insight Funds, a series of three funds-of-funds. "It's just that people got used to earning 20% or 30% annual returns with no risk, and that's not going to happen this year." Adds Robert J. Markman of Markman MultiFunds: "We'll alternate months of euphoria and months of despair, and year from now, the market will be up between 6% and 12%."

By Jeffrey M. Laderman
in New York

Disparate Returns for the Funds

	TOTAL RETURN*		TOTAL RETURN*
LATIN AMERICA	15.19%	UTILITIES	0.60%
FINANCIAL	8.95	FOREIGN	0.20
DIVERSIFIED EMERGING MARKETS	8.34	NATURAL RESOURCES	-1.64
LARGE-CAP VALUE	5.20	SMALL-CAP BLEND	-1.94
LARGE-CAP BLEND	5.04	PRECIOUS METALS	-2.38
REAL ESTATE	4.01	COMMUNICATIONS	-2.44
MID-CAP VALUE	3.67	PACIFIC/ASIA EX-JAPAN	-2.46
EUROPE	2.83	DIVERSIFIED PACIFIC/ASIA	-3.35
UNALIGNED	2.58	MID-CAP GROWTH	-3.69
LARGE-CAP GROWTH	2.47	TECHNOLOGY	-6.93
DOMESTIC HYBRID	1.94	JAPAN	-8.65
INTERNATIONAL HYBRID	1.66	SMALL-CAP GROWTH	-9.33
HEALTH	1.57	U.S. DIVERSIFIED EQUITY FUNDS	1.00
MID-CAP BLEND	1.33	ALL EQUITY FUNDS	1.10
SMALL-CAP VALUE	0.98	S&P 500 INDEX	7.09
WORLD	0.75		

Latin American and financial funds lead, and large-caps still show strength

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REAL ESTATE

FAST, SMART, 'DANGEROUS'

Dealmaker Sternlicht is eyeing all of Westin's hotels

For most dealmakers, a \$425 million loss on a single transaction could easily spell the end of a career. In 1989, Barry S. Sternlicht, a brash 29-year-old partner at Chicago's JMB Realty Corp., engineered a huge leveraged buyout of Randworth Trust PLC, a British property company. Two years later, when the British real estate market fell apart, Randworth Trust collapsed, wiping out equity holders.

When he set out on his own that year, though, he so impressed investors with his ambitious plans to invest in the depressed property market that the likes of the Ziff publishing family and New York's Burden family invested \$60 million. That was just the beginning. He has since raised \$3.3 billion, which has allowed him to build a \$5 billion portfolio of hotels, offices, and land. He has also emerged as among the nation's savviest real estate dealmakers, rewarding his investors with returns averaging more than 50% per year since 1991. "He is very smart, an awesome player," says Chicago real estate investor Samuel Zell.

TWO STARS. Sternlicht's investors will no doubt like him even more in coming weeks. Goldman, Sachs & Co., which owns 50% of Westin Hotel & Resorts, is offering to sell the entire chain for more than \$1 billion. His Starwood Capital owns the other half of Westin and would stand to more than double the \$273.5 million he paid for its stake in 1995. But in an unusual twist, another Sternlicht vehicle, Starwood Lodging Trust, a real estate investment trust that Sternlicht created in 1995, is the leading bidder for Westin. If Starwood Lodging, which is already worth \$2.6 billion, buys the entire property, it would become one of the biggest and best-positioned hotel companies in the U.S. "What has made us dangerous in the market is that we have real estate back-



DOWNHILL RACER: "We understand Wall Street"

STERNLICHT'S EMPIRE

STARWOOD CAPITAL

(Private investment group) 9,300 apartment units, 50% stake in Westin Hotels, 4.3 million square feet of office space, 16,000 residential lots. **Assets:** More than \$3 billion

STARWOOD LODGING TRUST

(Publicly traded REIT) 100 hotels including Boston Park Plaza, Ritz Carlton (Philadelphia), Westin Washington (D.C.), Westwood Marquis (Los Angeles). **Market capitalization:** \$2.6 billion

DATA: BUSINESS WEEK

ground but we also understand Wall Street," says Sternlicht. With Westin, Starwood Lodging would control the fourth-largest chain, a 196-hotel portfolio, with 68,971 rooms and a strong brand name in a rapidly consolidating industry.

The son of the president of a small manufacturing company from Stamford, Conn., Sternlicht has always known he wanted to do big deals. Just months after joining JMB from Harvard business school, he was a key player in the Chicago company's \$404 million acquisition in 1987 of real estate developer Arvida Corp. from Walt Disney Co. Sternlicht knew the assets, having analyzed Disney's real estate holdings as part of a Harvard project. "Barry was just two months out of school, and he

was opening doors for at Disney," says JMB President Neil G. Bluhm.

After leaving JMB to go it alone, Sternlicht showed his knack for finding value in the collapsing real estate market. He picked up \$1 million worth of multifamily apartments at dirt-cheap prices at Resolution Trust Corp. auctions. He then sold the portfolio for a 20% stake in Zell's Equity Residential Property Trust that was worth \$180 million when the company went public in 1993. At the same time, Sternlicht was among the first to start buying into the depressed hotel market. He focused on urban areas where building costs were steep and existing hotel properties selling at a fraction of replacement cost.

NO TAXES. Sternlicht's key deal in the hotel field was his 1995 acquisition of Hotel Investors Trust, a troubled REIT that, due to a legal wrinkle, was able to simultaneously buy and manage hotels, unlike other hotel REITs that must lease assets to a management

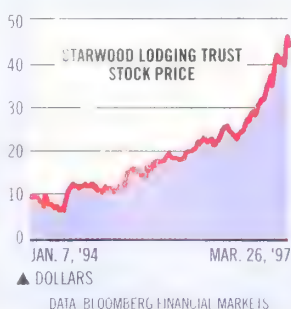
company. But it still escapes corporate income taxes that burden conventional hotel companies.

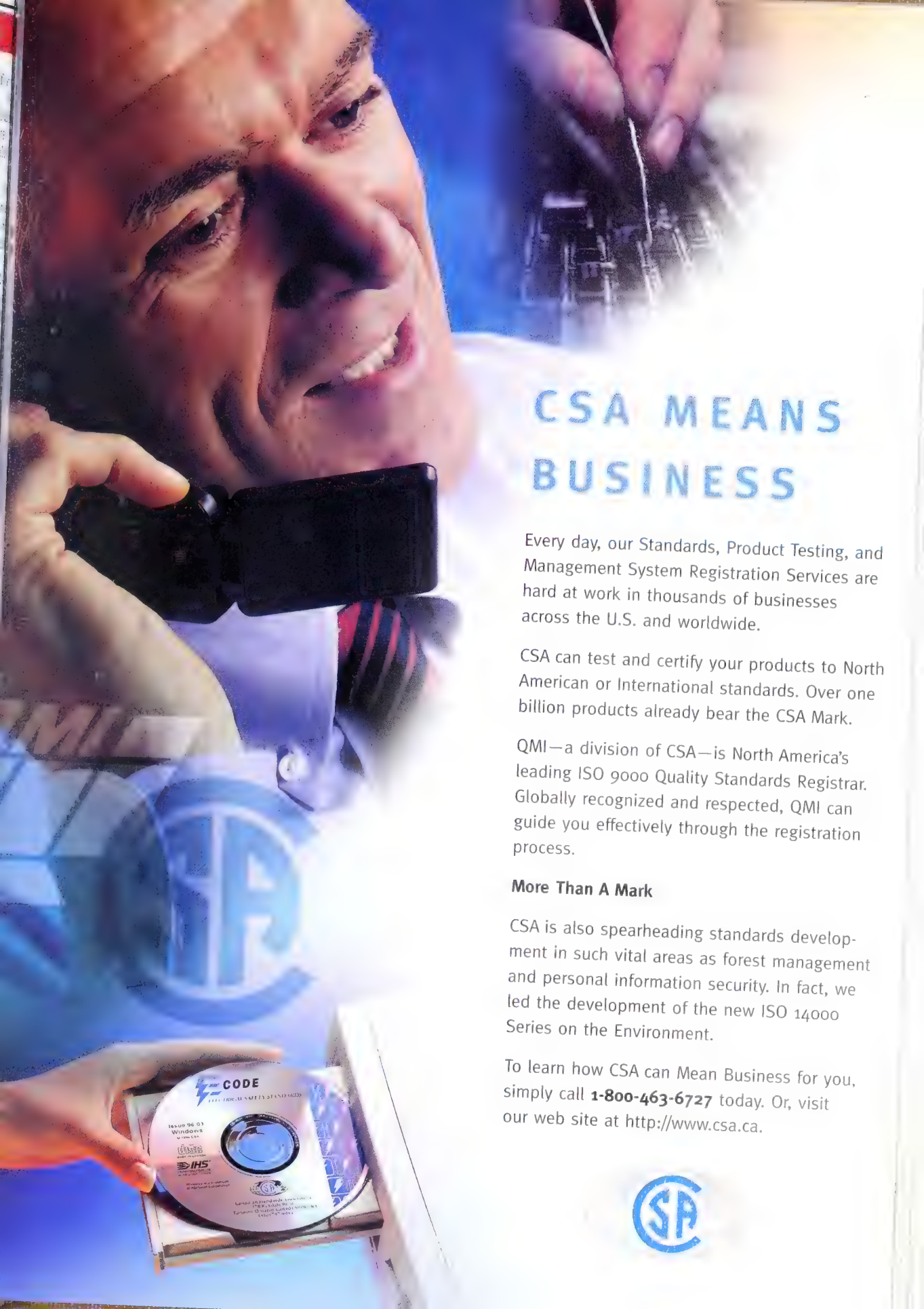
The REIT, renamed Starwood Lodging, is located in Phoenix. But Sternlicht strikes his deals from a simple suburban office above the main commercial street in Greenwich, Conn. This spring, he has spent \$537 million to acquire 15 hotels and 9 management contracts from Chicago to New Orleans. And he's trying to develop a partnership with Ian M. Schrager, who owns a hip hotel chain.

Despite his furious dealmaking, Sternlicht has few skeptics. Yet when he begins going head-to-head with the likes of Hilton, Sheraton, and Marriott, the going may get harder. Says JMB's Bluhm: "He is running fast and furious. But he may not know when to slow down." His future success may depend on whether he keeps remembering the humbling wipeout in his past.

By Kathleen Morris in Los Angeles
with Keith Felcyn in Greenwich, Conn.

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WILL KEYCORP BE SHARK BAIT?

The bank turns to fancy marketing to stay independent

Fifty-five stories above downtown Cleveland, in his office with a zebra-skin on the floor, KeyCorp market-maven Stephen A. Cone clicks on a TV. Up flashes an ad with the bank's new pitchman, actor Anthony Edwards, who stars as the much-loved Dr. Greene

on NBC's ER hospital drama.

Anthony is sensitive, competent, and caring. Those are the virtues we want in a project," says the guarded, tieless Cone, who is trying to remake the bank's fuzzy image.

Dr. Greene's marketing medicine did better work at KeyCorp. The \$7 billion bank has been scrambling since it stumbled in its March, 1994, merger with Society Corp. Unless comeback strategy works this year, KeyCorp is almost certain to be taken over. Says Thomas K. Brown, an analyst at Donaldson, Pflin & Jenrette: "It's going to be a fun year. They've got to perform, or they won't be independent."

SLICK ADS. As Robert W. Gillespie, Key's affable chairman and CEO, sees it, the core of the bank's new strategy is aggressive marketing. While slick ads raise the company's profile, Key will use data banks to target customers by income, age, and taste. The goal is to hit the baby-boomer market hard by giving it a fresh and distinctly modern

CEO GILLESPIE

KeyCorp has been scrambling since the 1994 KeyCorp-Society merger stumbled

brand identity. Gillespie, 53, who had been Society's CEO, says his plans are not just viable but visionary. "We are now seen as a kind of leader in this new breed of national bank-based services," he says.

But Gillespie may be running out of time. Demographics-driven marketing is hard to execute, and Gillespie's got a lot of competition. Having a TV doctor hawking a real-life bank may be too gimmicky. Thomas H. Hanley, an analyst at UBS Securities, says: "It's too early to judge if the plan will work. It will take a year, but at least they have a plan." The CEO of a rival bank is less kind: "They have no

strategy that makes any sense to me."

Gillespie is paying big bucks to make his plan succeed. He nearly doubled Key's marketing spending, to \$100 million, in 1996 and will spend the same in 1997. Since 1995, he has plowed \$500 million into technology upgrades to monitor markets and expedite credit checks and loans. He aims to push earnings per share growth up to 12% in each of the next three years from last year's 7%.

The need for dramatic action dawned on Gilles-

pie in mid-1994 as the merger began floundering. The two banks' fit had been iffy from the start: KeyCorp, based in Albany, N.Y., focused on smaller, northern U.S. towns, while Cleveland-based Society was a citified corporate and trust bank. The merger created a broad yet disparate new market stretching from Maine to Alaska. Says Gillespie: "I began to question the wisdom of consolidating Key and Society on a 1950s bank model," a time when bank managements could afford to be more relaxed.

RESCUE PLAN. Key's bottom line quickly suffered. Profits fell from \$853 million in 1994 to \$789 million in 1995 and \$783 million in 1996. Concurrently, other banks' earnings grew briskly, thanks partly to low interest rates. Key's stock rose 74% from 1994 to 1997, well below the 132% shown by the Standard & Poor's bank-stock index.

Worried Key executives spent nine months devising a rescue plan, which was announced in March, 1995. Five months later, Gillespie replaced Victor J. Riley Jr., who had also led the old Key, as CEO. That signaled that the new bank would look a lot more urban. Last November, Gillespie announced plans to sell 140 rural branches and shutter 140 more—about one fifth of the total. Instead, Key will expand in cities.

Gillespie also wants to develop other product lines. Key has a toehold in investment banking, and he is scouting for a life insurance company. Subprime auto lending still looks good despite some recent credit debacles.

Says A. Jay Meyerson, who is head of KeyCorp's consumer-finance group: "The spreads for these loans are very attractive."

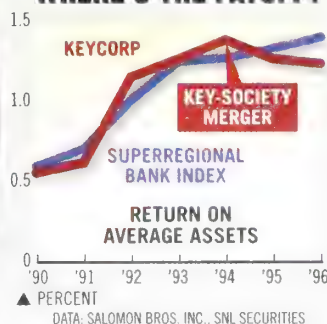
But the major open question is Cone's razzle-dazzle marketing schemes. Since joining Key nearly three years ago, Cone has come up with unusual ideas, such as making an automatic teller machine at Cleveland's Rock & Roll Hall of Fame resemble a 1950s jukebox. He recruited Edwards, launching his ads during the 1996 Super Bowl. "Brand awareness has gone up dramatically, to 50% over all groups," says Cone.

Right now, it looks like KeyCorp. is out of the ER. But unless the marketing blitz really lures lots of new customers, not even the good Dr. Greene will be able to save Key's independence.

By Peter Galuszka in Cleveland



WHERE'S THE PAYOFF?



strategy that makes any sense to me."

Gillespie is paying big bucks to make his plan succeed. He nearly doubled Key's marketing spending, to \$100 million, in 1996 and will spend the same in 1997. Since 1995, he has plowed \$500 million into technology upgrades to monitor markets and expedite credit checks and loans. He aims to push earnings per share growth up to 12% in each of the next three years from last year's 7%.

The need for dramatic action dawned on Gilles-

BY GENE G. MARCIAL

ONE-ARMED BANDITS MAY GET A LEG UP

Investors in Jackpot Enterprises (J) have yet to, well, hit the jackpot. Now trading at 10, the stock has languished between 9 and 13 in the past year, reflecting the lackluster performance of the Las Vegas slot-machine operator. But lately, some money pros have been accumulating shares.

LACKLUSTER SLOT MACHINES



DATA: BLOOMBERG FINANCIAL MARKETS

Why? Bolero Investment Group in Newport Beach, Calif., has bought 2% of the gambling operator and plans to buy more. Bolero has a record of taking stakes in companies that it ultimately forces to adopt measures to boost shareholder value. Ken Pavia, a Bolero general partner, says his group wants to wake up the management.

The stock is in a funk, notes Pavia, because "investors have lost confidence in management, which has been unable, in more than two years, to use the company's cash hoard of \$5 a share to bolster Jackpot's bottom line." As a result, he adds, the stock remains grossly undervalued. Another big Jackpot stakeholder is Mario Gabelli.

Pavia's goal is to amass more than 5% in Jackpot. That would allow him to exercise some control over the company's affairs. For starters, he thinks it should be on the trail of acquisitions that could improve sales and net income. Jackpot now operates 4,211 slot machines in high-volume retail chain stores, bars, and restaurants.

Failing that, Pavia says, management should seek to sell the company. Or, if it is determined to hold on, it should launch a leveraged buyout. In a takeover, Jackpot may be worth 15 to 18 a share, figures investment adviser Leo Rishty, editor of the market letter *Unique Situations* in Fort Lauderdale, Fla. He notes that the company, which has little debt, has eliminated the dividend in order to increase cash reserves.

In the meantime, Jackpot's sales

have been sluggish: Revenue is expected to drop to \$90 million in the year ending June 30, 1997—down from \$91.1 million last year and \$96 million in 1995. And the earnings picture isn't much brighter: *Value Line* analyst Ben Sharav expects Jackpot to make 75¢ a share this fiscal year, vs. 1996's 63¢ and 1995's 72¢.

Bolero's Pavia thinks that Jackpot CEO Don Kornstein should understand the concerns of shareholders because he used to be top gun at Bear Stearns's mergers-and-acquisitions unit before he took the helm nearly three years ago. If Kornstein doesn't respond, says Pavia, "I am ready to step in and make something happen." Kornstein is on vacation and couldn't be reached for comment.

ANOTHER JERSEY BANK JOB?

Densely populated New Jersey "has become a hotbed of bank takeovers," says money manager Jerry Ballan of C-B Partners, a New York investment group. Since July, at least nine have been bought out.

Bank deals in the state have become so heated that, just as one bank was expressing an interest last year in acquiring 100-year-old Trust Co. of New Jersey (TCNJ), the suitor was snapped up and taken over by an even larger Jersey bank. But no matter. Ballan argues that Trust Co., which owns 50 branches in upscale areas of central and northern New Jersey, remains an attractive target.

THE RUMOR MILL IS HUMMING



DATA: BLOOMBERG FINANCIAL MARKETS

Indeed, Chairman Siggie Wilzig concedes that "only price" has come between the bank and suitors, indicating that he has had talks with interested parties. Wilzig declined to specify what the right price is. But Ballan says the benchmark in recent bank buyouts has been about 2½ times book value. Trust's book is \$9 a share, estimates Ballan, pointing to a value of 24 a share. The stock sells for just under 17.

Wilzig says, however, that valuations

in recent deals have edged toward three times book. Management has been busy increasing shareholder value by improving and expanding operations, says Wilzig, whose family controls about 30% of the bank's stock.

Ballan estimates that Trust will earn more than \$1.25 a share this year, up from last year's \$1.02 and 1995's 62¢.

LEVEL 8 IS POISED TO BOUNCE BACK

For a small company, Level 8 Systems (LVEL) has big connections. The New York developer of messaging "middleware" has strategic alliances with both IBM and Microsoft.

Big Blue has chosen Level 8 as a "premier partner" in supporting IBM's MQSeries software. Microsoft, on the other hand, has signed an exclusive pact for Level 8 to develop gateways between Microsoft's Falcon messaging middleware and other incompatible hardware platforms, such as the MQSeries. Middleware lets computers communicate with other operating systems and server software and with different networking systems.

Level 8's stock

got a big boost from the IBM and Microsoft pacts. The company, which went public in July, 1995, at 5½ a share, did a secondary offering at 11 on Dec. 17, 1996. It traded as high as 17½ in mid-January, but has since tumbled to 11.

Not to worry, says analyst Vivek Rao at Hampshire Securities, which took the company public. He expects a rebound soon as a result of another alliance with a computer biggie yet to be announced. The impact of the new deal hasn't been included in Rao's current earnings estimates of 12¢ for 1997 and 54¢ for 1998. Neither is it in his target of 27 for the stock. Rao figures Level 8 will produce revenues of \$21.5 million in 1997 and \$41.9 million next year, up from last year's \$12.8 million.

Level 8 CEO Arik Kilman says the full impact of the IBM and Microsoft pacts will be more visible next year.

ON THE LOOKOUT FOR NEW TIE-INS



DATA: BLOOMBERG FINANCIAL MARKETS

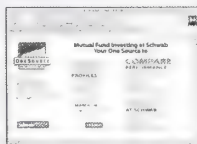
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CAN TOYS 'R' US GET ON TOP OF ITS GAME?

Even snazzy makeovers may not win back lost share

For Michael Goldstein, chief executive of Toys 'R' Us Inc., the past three years have been anything but child's play. Since he took over the top job at the giant toy retailer in February, 1994, Toys stock has lost a fifth of its value, and operating earnings have fallen 11% from results his first year. "It's been exhilarating," Goldstein says stoutly of his tumultuous tenure. "It's also been exasperating."

Toys 'R' Us, the company that long dazzled Wall Street with its unstoppable growth, has been fighting—and losing—a series of battles on all fronts. At home, the market it once owned has been under assault from giant discounters that

use toys as loss leaders. Despite being a market share loser, Toys has been accused by the Federal Trade Commission of unfair price competition in a case still pending. An attempt to translate its formula overseas has stalled. Even the much copied design of its stores—cavernous big boxes heavy on merchandise and short on ambience—has lost favor with shoppers. "Customers didn't like the shopping experience anymore," Goldstein says.

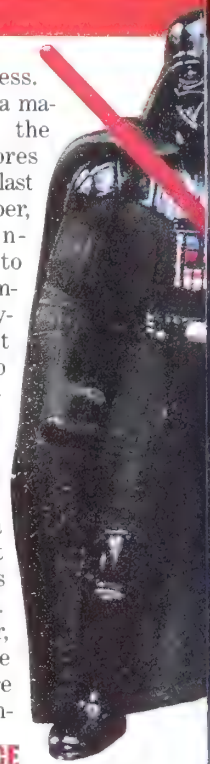
REDESIGN. Not that Goldstein isn't fighting back. Following an 18% slide in operating earnings in 1995, he announced a wide-ranging strategy early last year aimed at refocusing every facet of the

company's business. The plans include a major redesign for the flagship toy stores that was unveiled last summer. In October, the retailer announced plans to buy its biggest competitor in the baby-equipment market and is planning to redesign its children's clothing stores. It's also experimenting with new concepts, notably a megastore that combines elements of all three chains.

So far, however, the moves have failed to recapture Toys's old momen-

TRUST THE FORCE

The Star Wars bonanza reaped \$5 million in January, and customers seem to like the new stores



a. Anticipating improvement in the
ke of Goldstein's turnaround plans,
ll Street sent Toys's stock steadily
her last year. From 22 in January,
climbed above 34 in November. But
hen came Christmas. Despite lobby-
ing trips to Nintendo headquarters
in Japan by Toys 'R' Us execs, the
retailer couldn't get enough stock
of the popular video games and
turned away 100,000 disappointed
customers. Tickle Me Elmo? "They
saw it on TV and were disappoint-

ed when they came here to get it,"
Goldstein says.

The result: For the eight-week holi-
day season, sales were flat. That stiff
dose of reality helped knock share
prices back down to the mid-20s in Jan-
uary. It has since recovered to 29. Toys
ended the year with operating earn-
ings of \$813.8 million, up 8.8% from
1995, on sales of \$9.9 billion, up 5.4%.
Not terrible, but not enough to make it
a growth stock either.

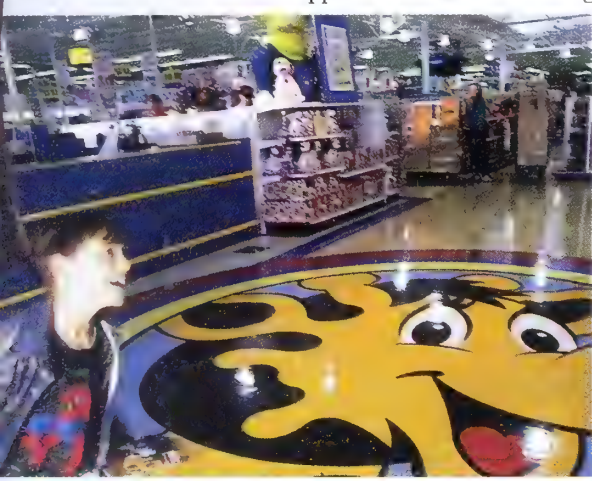
This is a long fall for the company

that pioneered the
category-killer style of
retailing in the 1980s.
Back then, the giant
stores made no at-
tempt to offer enter-
tainment or even
charm. With all the
excitement of a su-
permarket, Toys 'R'
Us piled Barbies like
so many cereal boxes
on drab floor-to-ceiling
shelves. Customers
fought through the
maze of aisles, reach-
ing high overhead for
toys, diapers, and par-

ty favors. But with a huge assortment
and decent prices, Toys drew baby-
boomer parents in droves. Boasting dou-
ble-digit earnings growth through most
of the 1980s, Toys looked unstoppable.
"This was a case where trees really could
grow to the sky," says Frederick Marx, a
partner at Marx-Layne Retail Consulting
in Farmington Hills, Mich.

COURT CASE. But an onslaught of new
competitors stopped Toys in its tracks.
Foremost among them: Wal-Mart Stores
Inc., which had long avoided the low-
margin toy business. The discounter
reentered with a vengeance in 1990,
stocking up on the hottest-selling 20%
of toys that account for the bulk of
sales and practically gave them away,
according to Marx and other industry
analysts. Since toys only accounted for
a fraction of its business, Wal-Mart
could afford to cut prices. So could oth-
er discounters. They retaliated by fol-
lowing suit.

The company that couldn't afford to
fight this war was Toys 'R' Us. With
toys its only category, lowering prices
hurt it far more than the competition.
It tried using its dwindling clout by
threatening to dump certain toys if they
were also sold to warehouse clubs, an-



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NEC is a pioneer in color PDP

technology. We introduced a 33-inch model for monitor applications last year. Now we are marketing a 42-inch PDP designed for multimedia display in the home.

Our new screen features an aspect ratio of 16:9. It has 853 x 480 pixels and displays 16.7 million colors. The new PDP is designed for PCs, video, NTSC TV and digital TV. It automatically converts pictures from 4:3 to 16:9 aspect ratio. For PC display, it accepts both VGA and SVGA signals. The new wide plasma display measures 1,005mm wide, 598mm high and 99mm deep. It weighs only 40kg.

INTERNET CLASSROOM FOR CHILDREN

NEC is combining the global reach of the Internet with the excitement of multimedia technology to create an attractive international virtual school.

The unique Global Network Class is called "Gakkos" (schools in Japanese). Gakkos is a web site where registered elementary or secondary school children from around the world can participate in a variety of interactive educational activities.

The purpose of the Gakkos is to foster a sense of global citizenship among children. Gakkos offers seminars on science and culture. World-famous scientists conduct the science seminar. They lecture, discuss themes and answer student questions. In the culture seminar, students learn about different cultures by discussing topics such as favorite foods, colors and lucky signs. The web site (<http://www.gakkos.com>) also offers a school communication network and a library linked to excellent databases around the world.



NEW PAGER SHARES DATA WITH PCs

NEC has introduced a new type of pager that can share data with Windows-based PCs. The Beacon™ Data Pager gives users convenient, on-the-go access to personal schedules, contacts and other PC-based information.

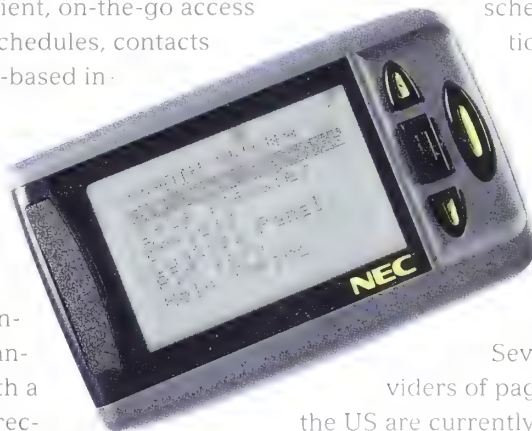
The Beacon pager uses Microsoft software for data exchange and information management. With a built-in bi-directional infrared link, it exchanges Personal Information

Manager or other application-based information with Windows PCs or other Beacon pagers. Users can easily archive and catalog incoming data for later transfer back to their PCs.

The Beacon Data Pager has a large screen that displays 128 characters (8 lines x 16 characters). A 128KB memory stores both paging and applications data. It can hold, for example, paging messages, contacts, schedules and additional data.

Beacon pagers feature a flexible design by allowing new services and software to be added at any time.

Several major providers of paging services in the US are currently evaluating the enhanced capabilities of the Beacon Data Pager.



3V RISC DELIVERS 38MIPS

High speed, low voltage and single-chip system control. Those are the benefits of the V854 RISC microcontroller from NEC. It's ideal for handheld products with built-in motor drives such as video cameras and electronic still cameras.

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For fast development, the V854 is supported by the mature design environment used for our V800 series of RISC microcontrollers. Tools include a C compiler, debugger, simulator and analyzer.

The Corporation

other group of low-cost competitors. But that brought the FTC complaint against the retailer in a case that went to court last month. "This is common practice," Goldstein says. "It's the same thing as department stores saying they won't carry clothes that Kids 'R' Us carries. It happens."

None of that stopped the company's market share from sliding. Its slice of the \$30.2 billion toy market has dropped from 25.4% in 1990 to 20.5% last year, according to Tactical Retail Solutions Inc., a New York consulting firm. Meanwhile, Wal-Mart's portion has grown from 9.5% to 15%. "Toys 'R' Us had the lion's share of the growth path," says Sean McGowan, an analyst with Gerard Klauer Mattison, a New York brokerage firm. "Wal-Mart stopped it."

Early last year, Goldstein moved to show the world Toys was back on track. He unveiled an array of initiatives designed to win back customers. Foremost was Concept 2000, a plan to convert each of the 683 U.S. stores to a snazzy new look by the end of the decade. The new stores feature a wall of glass in place of the drab stucco facade. The old high shelves have given way to low-slung floor displays, allowing a view clear across the store, from the Barbie boutique to the Lego arena. Bright decals dot the floors. And to make the stores easier to shop in, Toys cut the number of items it stocks by a fifth. "We can't compete with prices at Wal-Mart and other discounters," Goldstein says. "So we're installing a wow factor."

BIG CONCEPT. Early buzz is encouraging. Goldstein says so far customers are spending more time and more money in the 13 stores that sport the new design. Still, the changes have been too slow to make much of a dent: The company has 670 locations yet to convert, at \$800,000 to \$1.5 million a pop. Toys plans to build 25 Concept 2000 stores this year and convert 57 existing locations, taking up most of its estimated \$630 million 1997 capital spending budget.

The new stores may preserve the company's market position, but some doubt they will increase it dramatically. "There's a point at which you get so much market share—in any industry—that there's nowhere to go but down," says Bernice Behar, a portfolio

manager at John Hancock Funds, who holds Wal-Mart stock but not Toys. "Toys 'R' Us is at that point."

That's why Goldstein is looking beyond toys for growth. A \$376 million deal to buy Baby Superstores Inc. closed in February, leapfrogging the company's Babies 'R' Us chain to the head of the line in the \$20 billion market for baby clothes, furniture, and toys. By the end of the year, Toys expects to have 104 baby stores generating \$650 million in sales, compared with just six in 1996. As the leader in a fragmented market, this may well be Goldstein's strongest bid for growth, although he will need to consolidate his position fast. Other retailers are also eyeing this market.

Goldstein also needs to improve

RARITAN, N.J. The revamped stores, with glass brick fronts and low floor displays, cost \$800,000 to \$1.5 million a pop



results at Kids 'R' Us, its 212-store children's clothing chain. A redesign may help, but Toys faces stiff competition from department stores and specialty retailers. The best hope in clothing may lie in KidsWorld, the 95,000-square-foot megastores that combine all three chains under one roof. Borrowing from retailers such as Barnes & Noble Inc. and Disney Stores that use food and enter-

tainment to keep customers in the stores longer, Toys has added party areas, hair salons, and a photo studio to the megastores. Two opened last year and Toys plans to roll out two a year starting in 1998. Goldstein says results have been strong so far, but the potential of KidsWorld is limited by the stores' sheer size. "The country can't sustain so many," says Toys board member Howard W. Moore, a retail consultant and former Toys executive.

PLOWING AHEAD. Toys has also made big investment outside the U.S., where

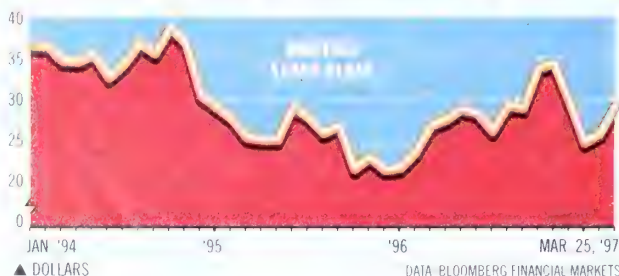
it has 396 stores in 23 countries. But so far those markets have failed to live up to expectations. Early this decade, Goldstein predicted that Toys would increase international sales 30% a year and hit sales of \$1 billion by 2000. Instead, international revenues grew less than 1% last year, to \$2 billion, in part because of weakening economies in Europe and Asia. Nonetheless, Goldstein is plowing ahead, convinced that foreign markets still offer good growth prospects. This year, Toys will add 40 new stores, mostly in Japan.

Toys may never recapture the luster of its high-growth years. But this year, at least, it could get a boost from something totally beyond its control: a better market for toys. "This is the strongest start I've seen in years," says Ed Roth, who directs toy-industry analysis for NPD Group, a market research firm. The re-release of the *Star Wars* movies has sparked a mini-industry in licensed space toys, accounting for \$55 million in sales in January alone, according to NPD Group.

Having learned from Elmo at Nintendo, Goldstein is ready this time. On a tour of a newly refurbished New Jersey store, he proudly shows off the store's massive *Star Wars* display. As if on cue, a grandfatherly man walks in, five kids in tow. "Wow, Andy, look at that," he says, pointing to the giant spaceship suspended from the ceiling. Goldstein looks as if he's just heard baby's first words. "Did you hear him?" he gloats. "He said, 'Wow.'" If only Wal-Mart could hear.

By I. Jeanne Dugan
in Raritan, N.J.

TOYS 'R' US: STOCK GAINS 'R' NOT



THEFT, VANDALISM, AND CHAOS.

THREE COMPELLING REASONS TO DO BUSINESS WITH MCAFEE.

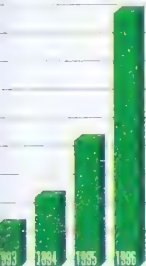
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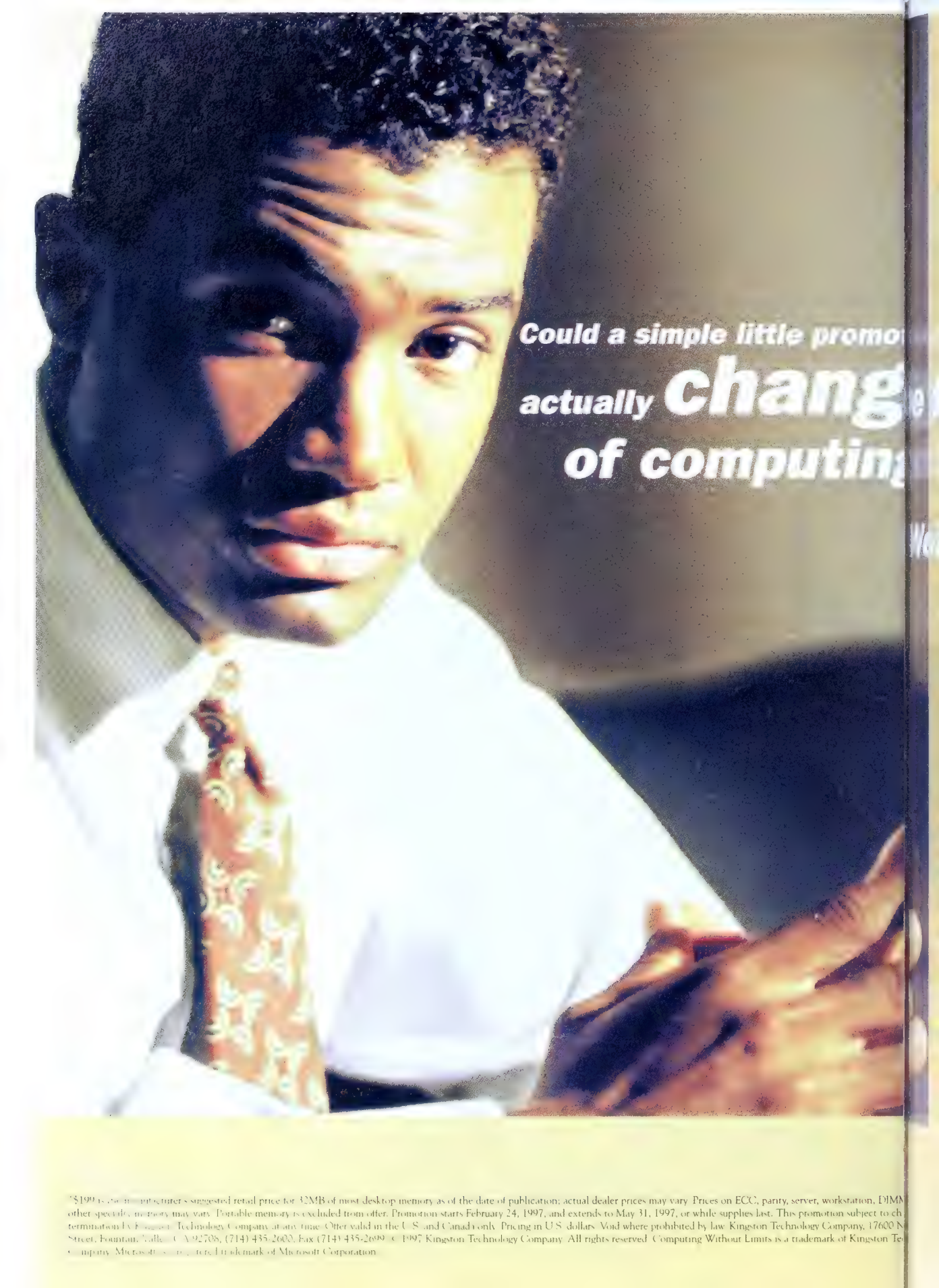
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actually **change**
of computing

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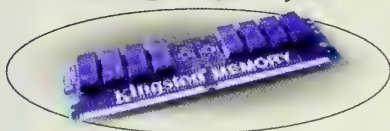
e future

Well, yes.

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32MB
of Kingston memory
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for most
desktop
systems



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WHIRLWIND ON THE WEB

Computer maker Dell is showing the world how to run a business in the Cyber Age

Michael S. Dell eases his Mercedes 500SL down the driveway of his \$10 million mountain-top estate. Bundled against the cold in a sweater and ski parka, he guns the car as he pulls onto State Highway 1. He's in a rush, weaving the silver two-seater in and out of the early morning commuters as he heads for his office, a gleaming complex jutting up from the prairie lands of Round Rock, Tex., just north of Austin.

Fifteen minutes later, Dell reaches the center of his fast-rising computer empire. Today's first stop: the team responsible for making Dell Computer Corp. an Internet phenom, selling \$1 million worth of computers a day on its Web site. Dell tosses off his parka and plows into a discussion on how to pump up sales even more. He wants Web pages tailored for corporate customers to order online. And he's impatient for a new feature that dashes a digital confirmation to customers within five minutes of placing an order—his way of reassuring buyers. Says Dell: "The Internet is one of the things I'm most excited about in our business."

For good reason. In just six months, Dell has gone from nowhere in cyberspace to being the No. 1 PC retailer on the Web—with sales growing 20% each month. For the Texas computer maker, electronic commerce is the perfect extension of the company's direct-sales business. Corporations and techno-savvy customers that were willing to buy over the phone are the first ones dialing in

to purchase on the Web. "The Internet," says Dell, "is the ultimate direct model."

Suddenly, Dell looks like the right company at the right time. After years of skeptics predicting that the direct-sales approach, like mail-order clothing, would never amount to more than 15% of the market, Dell is cashing in on an altogether different scenario. Direct buyers now account for nearly a third of the PC business, up from 15% six years ago. Throw in an increasingly wired population that is just a mouse click away from buying over the Net, and direct marketers—Dell, Gateway 2000, and Micron Electronics—are sitting pretty.

HOT STOCK. But none are as well-positioned as Dell. In the past three years, it has been on a *jihad* to make its manufacturing and assembly process as fast and fine-tuned as Dell's Mercedes. Today, a custom order placed at 9 a.m. on a Monday can be on a delivery truck by 9 p.m. Tuesday. What's more, this speed has allowed Dell to slash inventories and keep parts costs down so low it can underprice its rivals by 10% to 15%.

The result: Dell is now one of high-tech's best growth engines. Last year, unit sales in the U.S. jumped 71%—more than five times the industry's 13.6% growth rate. That pushed revenues up 47%, to \$7.8 billion, and, combined with Dell's low-cost style of doing business, sent profits skyrocketing 91%, to \$518 million. The surge is expected to continue this year with sales hitting \$10.2 billion. That could catapult Dell, which took root in a Texas college dorm room in 1984, from the No. 5 PC maker to No. 3, ahead of Packard Bell NEC, and Apple Computer.

For investors, owning Dell shares has been like putting heli-

“Speed is everything in this business. We're setting the pace for the industry”

MICHAEL DELL, chairman and CEO, Dell Computer Corp.



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TEAMWORK WORKS. In a recent study conducted by BLOOMBERG PERSONAL magazine, mutual funds run by multiple managers were shown to be better than those run by only one. WHY? ONE reason: "(TEAMS) are more likely to have a disciplined method for investing." AFTER all, individual managers don't have the same accountability when it comes to keeping a fund within its classification. THIS can lead to impulsive buying and selling and, ultimately, what the industry calls "style drift." PLUS what happens to a fund that's individually managed when that one manager goes on vacation? OR leaves? THAT's why at Putnam, we have teams of managers, analysts, and strategists. IT ensures that the necessary checks and balances are always in place to keep a fund consistent with its goals. AND that our funds benefit from a mix of different skills, experiences, and points of view. IT's something we've learned from our 60 years of experience in the business. AND in fact, with almost seven million individual investors, we've got more than just a second opinion on our side.

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Information Processing

um in their portfolios. The stock nearly quadrupled in 1996 and ran as high as \$76 in February. With the selloff in high tech, Dell now trades at \$67.50, up 27% this year—a greater rise than IBM, Compaq, Hewlett-Packard, Cisco Systems, even Intel and Microsoft. Dell's 23% return on equity last quarter was nearly triple that of PC king Compaq (at 7.9%).

What's Dell's secret? How has the computer maker managed to defy the naysayers and turn a classically low-margin mail-order operation into a high-profit, high-service business that's the envy of the industry? In a word: speed. Dell has long been a model of just-in-time manufacturing, but now it has upped the ante by applying the same brutal time standard to its supply chain—insisting, for example, that the bulk of its components be warehoused within 15 minutes of a Dell factory. Dell also has seized on the ultimate in low-cost, fast-paced business—electronic commerce. The combination puts Dell in the vanguard of manufacturers in any industry. "If you're good at both, you get a multiplier effect," says Robert E. MacAvoy, president of Easton Consultants, a Stamford, Conn. management consulting firm. "That is Dell."

The company calls it "velocity," squeezing time out of every step in the process—from the moment an order is taken to collecting the cash. Especially the cash. Dell converts the average sale to cash in less than 24 hours, by tapping credit cards and electronic payment. By contrast, industry giant Compaq Computer Corp., which sells primarily through dealers, takes 35 days, and even mail-order rival Gateway 2000 takes 16.4 days. "Speed is everything in this business," says Dell, whose 15% stake in the company is now worth \$1.8 billion. "We're setting the pace for the industry." Think of it as Dell-ocity, a pace so fast that even whirlwind Silicon Valley has taken notice. "I have bruises on my back from Mr. Michael [Dell] when we can't keep up with them," says Intel CEO Andrew S. Grove.

That has rivals itching to do the same. PC makers, such as IBM, Compaq, and

Hewlett-Packard are trying to imitate Dell with their own schemes to slash production time and boost service. IBM, for example, no longer assembles PCs for most of its corporate customers. Instead, computer dealers, such as MicroAge Inc., do the work. And in June, Compaq will begin rolling out its own Internet connection, allowing customers to manage everything from ordering a machine to scheduling software updates online. "If copying is the sincerest form of flattery, Dell's getting a lot of flattery right now," says Robertson, Stephens & Co. PC analyst Dan Niles.

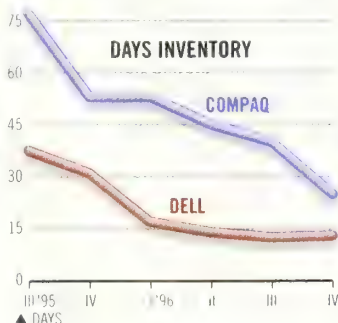
keep components warehoused just minutes from Dell's factories in Austin, Linerick, Ireland, and Penang, Malaysia. In part, Dell has done this by reducing the number of suppliers to those that will cooperate with its warehousing plan. Dell now buys its components from just 47 companies, down from 204 companies in 1992.

MEXICAN PIPELINE. Keeping the flow of parts running smoothly requires precise coordination. For this, Dell has turned outside help. In the U.S., for example, Caliber Logistics Inc., a specialist in setting up efficient supply chains, manages

THE RACE Turnaround between custom order and delivery can be 36 hours



DELL IS A MASTER AT MANAGING INVENTORY...

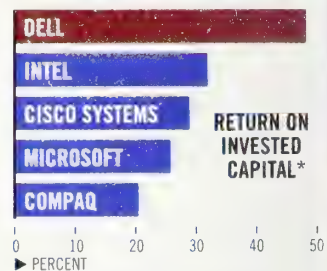


...AND TURNING SALES INTO CASH—FAST...



DATA: BUSINESS WEEK, COMPANY REPORTS

...MAKING IT TOPS IN HIGH-TECH PROFITABILITY



*LATEST YEARS AVAILABLE FOR BUSINESS WEEK 50 OFFICE EQUIPMENT AND ELECTRONICS COMPANIES

Still, competitors have a ways to go to beat Dell at its own game. Take computer production. While machines from Compaq and IBM can languish on dealer shelves for two months, Dell doesn't start ordering components and assembling computers until an order is booked. That may sound like no biggie, but the price of PC parts can fall rapidly in just a few months. By ordering right before assembly, Dell figures his parts, on average, are 60 days newer than those in an IBM or Compaq machine sold at the same time. That can translate into a 6% profit advantage in components alone.

Dell doesn't stop there. It has also found a way to get most suppliers to

warehouse 15 minutes from Dell's Austin assembly plant. Suppliers restock the warehouse and manage their own inventories, while Caliber whisks the parts to Dell as needed. The best part: Dell doesn't get billed for the components until they leave the warehouse.

So far, the system is a time killer. STB Systems Inc., a maker of video graphics cards, stocks three weeks worth of its products in warehouses near Dell plants. The Richardson (Tex.) company also supplies PC makers such as IBM, Compaq, and Gateway, but none are as streamlined as Dell. Were Compaq to suddenly need a rush supply, it could take 12 to 18 hours. IBM and Gateway, he says, could

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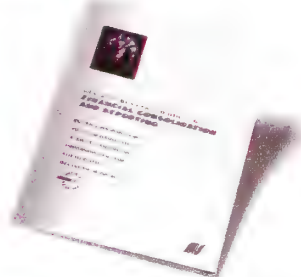
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take two days. "Dell is different in that their inventory is minutes away—not hours or days," says STB procurement director Rick Spencer.

For high-cost items, such as the main circuit board—the heart of a computer—Dell has cut more time by switching to regional suppliers. Dell used to order in bulk from one supplier as a way to get discounts. No more. Last year, it went to three regional subcontractors instead of a single manufacturer for all. What it lost in discounts, it more than made up for in time. Now, Dell's Austin plant gets circuit boards trucked in from Mexico in 15 hours, instead of 22 days by boat from its previous Indian supplier.

And then there's monitors. This year, Dell stopped accepting deliveries of video displays for its PCs. Instead, when a machine is ready to be shipped from any of its factories, Dell sends an E-mail message to a shipper, such as United Parcel Service. The shipper pulls a computer monitor from supplier stocks and schedules it to arrive with the PC. By no longer shipping monitors first to Dell and then on to buyers, Dell saves some \$30 per display in freight costs.

Such rethinking of operations lets Dell operate more efficiently than any other computer company. Its total inventories amount to 13 days of sales, vs. 25 days for Compaq. If this sounds like much ado about nothing, consider this: For every new dollar of capital investment last quarter, Dell shareholders got \$1.54 back in profits, compared with 59¢ for Compaq and 47¢ for IBM.

BOLD PROMISE. One of Dell's tricks for managing inventories is shaping demand. In telephone sales, it can daily alter its suggested configurations to guide customers to PCs with widely available parts. As many as two-thirds of the telephone buyers accept the recommended configuration. And for big corporate buyers, who account for nearly 60% of sales, it holds annual "technology briefings" in which Dell offers its view of what key technologies are coming—and picks customers' brains on their needs, too.

It's paying off. At Eastman Chemical Co., Dell snared a contract for 10,000 PCs by guaranteeing all its machines would have the same parts and software regardless of when and where in the world they're needed—something the



“We spent 15 months educating [our] people about return on invested capital”

TOM MEREDITH, senior vice-president and CFO, Dell Computer Corp.

previous supplier, IBM, had failed to do several times. This helped Eastman slash its annual PC costs by \$5 million a year, and made Dell its exclusive PC supplier. "Dell has done some wonderful things in customizing these machines," says Eastman's director of computing services, Charlie Oliver.

Today, the Dell machine is firing on all cylinders. In addition to being a PC juggernaut, Dell is moving fast into the \$10 billion network server business. Dell's server business, while contributing just 6% of its total revenues, soared 300% last quarter. In notebook PCs, Dell has become the sixth-largest seller in the \$40 billion market.

Now, Dell is working on ways to combine its PC knowhow with better networking service. Through a partnership with network equipment maker 3Com Corp., Dell is trying to slash the 60 to 90 days required to test computer and networking configurations to just two weeks. Instead of each running independent tests of the same gear, Dell will deliver to 3Com each new computer so that 3Com can test compatibility with its networking devices. "There's a big advantage to getting product quickly to market

with Dell," says 3Com CEO Eric Benhamou. "They know more directly what the customer wants."

Rivals are simply impressed. "One time, we said only so many customers are willing to buy direct," says Larry Chang, controller for HP's PC business. "But it's creasing. Dell has proven wrong." In an effort to catch Dell, HP started building business PCs to a customer's specification.

GRIM DAYS. It wasn't that long ago that the PC cognoscenti were predicting Michael Dell and his no-order model would hit the wall. Certainly came close. In the first six months of 1993, Dell had a \$10 million loss from inventory write-downs and an industrywide price war started by Compaq.

But the close call was transformed into a lesson on the dangers of growth at all costs. Dell wised up and recruited operations savvy managers from Motorola, Siemens, Microsystems, and Western Digital. Financial teams fanned out to talk with employees about metrics for running the business, minimizing inventories and increasing return on capital. Today, the financial nitty-gritty is deeply ingrained in Dell's 10,350 employees. The marketing department calculates the return on investment

each mailing; purchasing managers figure the cost of unsold inventory each day. "We spent 15 months educating people about return on invested capital, convincing them they could impact our future," says Chief Financial Officer Thomas J. Meredith.

One way to get more bang for the buck: selling PCs over the Web, where Dell has a crew of only 30 people, in contrast to the 700 reps that take orders over the phone. In coming months, Dell plans to make this even more attractive by creating custom home pages for its biggest buyers, including Eastman Chemical, Monsanto, and Western Fargo. By midyear, Dell plans to deliver E-commerce set-ups to 75 companies. Their employees will be able to order a PC and automatically receive the corporate price.

For Dell, the online world promises even greater speed and cost savings. With Dell racing past rivals like Sunday drivers on the Information Highway, there may be a new pace for manufacturers in the Age of the Internet. Dell-city.

*By Gary McWilliam
in Round Rock, Tex.*

TRANSPLANT BREAKTHROUGH WITH ONE BIG CATCH

Pig organs with human genes could save thousands, but many fear a viral epidemic

Transplant surgeons are often unable to help many of their patients because of a critical shortage of organs. Each year, 3,000 patients die while waiting on transplant waiting lists. It's a desperate situation that seems to call for desperate measures.

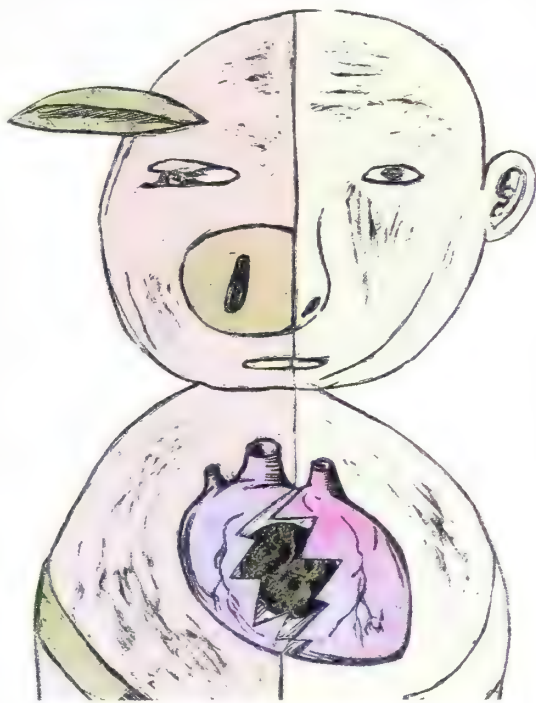
Enter genetically engineered pigs. Raised in solitary confinement in ultra-clean rooms from birth, these high-tech porcines don't nurse because they're too dirty. They wouldn't recognize their mothers if they fell in it. For the transplant industry, these pigs represent a shining hope. Their organs closely resemble our own. And they have been engineered to carry specific human genes that make them look nearly human to a recipient's immune system—and therefore less likely to be rejected.

REALLY BAD IDEA. Pig hearts have been kept beating in monkeys as long as 60 days. With recent advances in cloning, scientists could theoretically raise genetically identical pig litters, greatly reducing genetic variables. Pigs are cleaner than humans—another potential source of organs—and using pigs is less likely to elicit complaints from animal rights activists. Pig organs could help save 200,000 lives a year in America, says John J. Fung, transplant director at the University of Pittsburgh Medical Center.

Recently, however, researchers have pointed to what could be a disastrous drawback to the use of pig organs. Last month, researchers at London's Institute of Cancer Research reported that a virus found in pig cells had crossed over and infected human cells—an event doctors had thought was unlikely. Other experts have observed the same thing. The implications are ominous: The transplantation of pig organs into humans could unleash a new human viral epidemic. "From an infectious disease standpoint, transplanting animal organs is a really bad idea," says Jonathan S. Cohen, virologist at the Southwest Foundation for Biomedical Research in San

Antonio and a leading critic of the transplant of animal organs into humans, a process called xenotransplantation.

The battle over pig organs pits two groups of doctors against each other—transplant surgeons and virologists. Surgeons who see their patients dying don't worry so much about the long-term risks that virologists find so terrifying.



Cross-species transplants
are now "sort of a crapshoot,"
says an FDA scientist

In Britain, the virologists' camp won out: In January, the government placed a moratorium on xenotransplants.

In the U.S., the Food & Drug Administration has given the \$4 billion transplant industry the go-ahead, stipulating strict monitoring of tissues, organs, and patients and the establishment of nationwide tissue banks. "We're building more safety into the approach,"

says Philip D. Noguchi, director of cellular and gene therapies at the FDA.

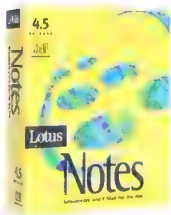
Livers, hearts, and other intact organs present the greatest risks for the transmission of animal viruses to humans. Such organs can easily spread any viruses they might carry throughout the bloodstream. Most healthy people might have immune systems powerful enough to resist the viruses. But transplant patients are given drugs to suppress their immune systems to prevent rejection of their transplanted organs. That leaves them vulnerable to the animal viruses, which could in turn leap from them to the rest of us.

YEARS OF TESTING. Besides whole organ transplants, researchers are also devising ways to transplant live animal tissues and cells to treat some diseases. Theoretically, it's easier to screen the tissues for the presence of viruses. Doctors in Boston, for example, have inserted fetal pig cells into the brains of 12 Parkinson's disease patients—with startling success. In some cases patients have begun walking again. Biotech companies are rigging up "bioartificial" livers, circulating patients' blood through pig liver cells and then back into the body.

Meanwhile, researchers are experimenting with animal tissues and cells for use against diabetes, multiple sclerosis, and AIDS. Although likely safer, even tissue and cell implants pose unknown risks. Noguchi emphasizes that more research is needed. "It makes it sort of a crapshoot," he says. That could change as scientists develop tests sensitive enough to proclaim tissues virus-free—but that could take years.

Some researchers argue that the FDA must push the industry to build stronger firewalls between species by banning some procedures and demanding the most rigorous testing. Otherwise, in the fight against familiar old diseases, we could end up creating mysterious new ones.

By Stephen Baker in Pittsburgh



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Developments to Watch

EDITED BY OTIS PORT

PURGING DRUGS OF THEIR EVIL TWINS

PROMISING DRUGS MUST SOMETIMES BE SHELVED BECAUSE they contain sinister elements that are mirror images of the beneficial ingredients. Many molecules come in two versions—chemically identical, but reversed in structure. Chemists dub them right-handed or left-handed and refer to them as chiral molecules. When thalidomide was marketed 40 years ago, a left-handed molecule provided relief from morning sickness. But its right-handed counterpart caused horrible birth defects.

Because chiral molecules behave the same in chemical reactions, separating them is tough. That may soon change. Isiah M. Warner, chairman of Louisiana State University's chemistry department, recently received \$750,000 in federal grants to develop promising solutions he has pioneered.

One uses tiny balls of special surfactant molecules. While these attach to both chiral forms, either the right-handed or the left-handed version has a slightly stronger bond—and this can be exploited. Pass a current through the solution, and the weak-bond clumps move more rapidly toward an electrode, leaving behind the strong-bond clumps. Warner believes this process could be scaled up to purify bulk chemicals. □



OPEN WIDE: YOUR DENTIST COULD HELP PREVENT STROKE

EACH YEAR, HALF A MILLION Americans suffer a stroke. For some, it's deadly. Others are left with disabilities such as partial paralysis in a limb, or a speech impediment. Usually, there are no warning signs. But dentists may soon fill that void and become a first line of defense against strokes.

Researchers at the University at Buffalo have found that routine dental X-rays seem to be an effective tool for spotting potentially dangerous calcium buildups in the carotid arteries. These arteries are near both ends of the jawbone and supply the brain with blood. Arterial calcium deposits that choke off blood to the brain are a major cause of stroke.

Dr. Laurie C. Carter, a radiologist at the university's School of Dental Medicine,

led the team in examining the X-rays of 2,752 new clinical patients. About 5% of them had calcification and were advised to visit their doctors. Now the team is gearing up to corroborate the research. For example, one study involves taking dental X-rays of recent stroke victims to see how many have visible calcium deposits that might have warned they were at risk. □

EASY-TO-SWALLOW NEWS FOR DIABETICS

A NUMBER OF DRUGS, SUCH as insulin and immunoglobulins, are too fragile to survive digestion or too big to pass through the intestinal wall into the bloodstream. So millions of diabetics and other patients must endure daily injections. But researchers are racing to turn these injectable drugs into easy-to-swallow pills.

One approach is to coat the drug with a biodegrad-

able polymer. The coated drug passes through the stomach, then sticks to the walls of the small intestine. There the polymer breaks down, and the drug can enter the blood. In animal experiments reported in the Mar. 27 issue of *Nature*, a team led by Edith Mathiowitz of Brown University showed this method can work for insulin.

Even more impressive re-

sults come from borrowing one of nature's tricks. While developing a cholera vaccine in 1991, pediatrician Alessio Fasano of the University of Maryland discovered a previously unknown bacterial protein that can open gaps in the small intestine's wall. The cholera bug uses this protein, dubbed Zot, to tap the body for fluids. But Fasano realized the openings could also be portals for moving big molecules into the blood. "We found the

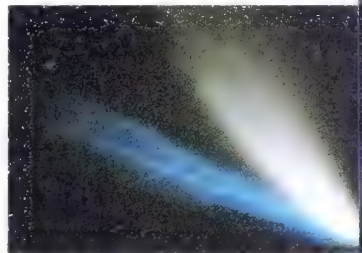
key for a gate already there," he notes.

In experiments with rats, Fasano has shown that insulin given orally with Zot does end up in the blood. Next, the method will be tested in monkeys and people. "If this technique brings the possibility of giving insulin orally, it will be a major breakthrough," enthuses Fasano. He's already talking to several drug companies that want to commercialize the approach. *John Carey*

INNOVATIONS

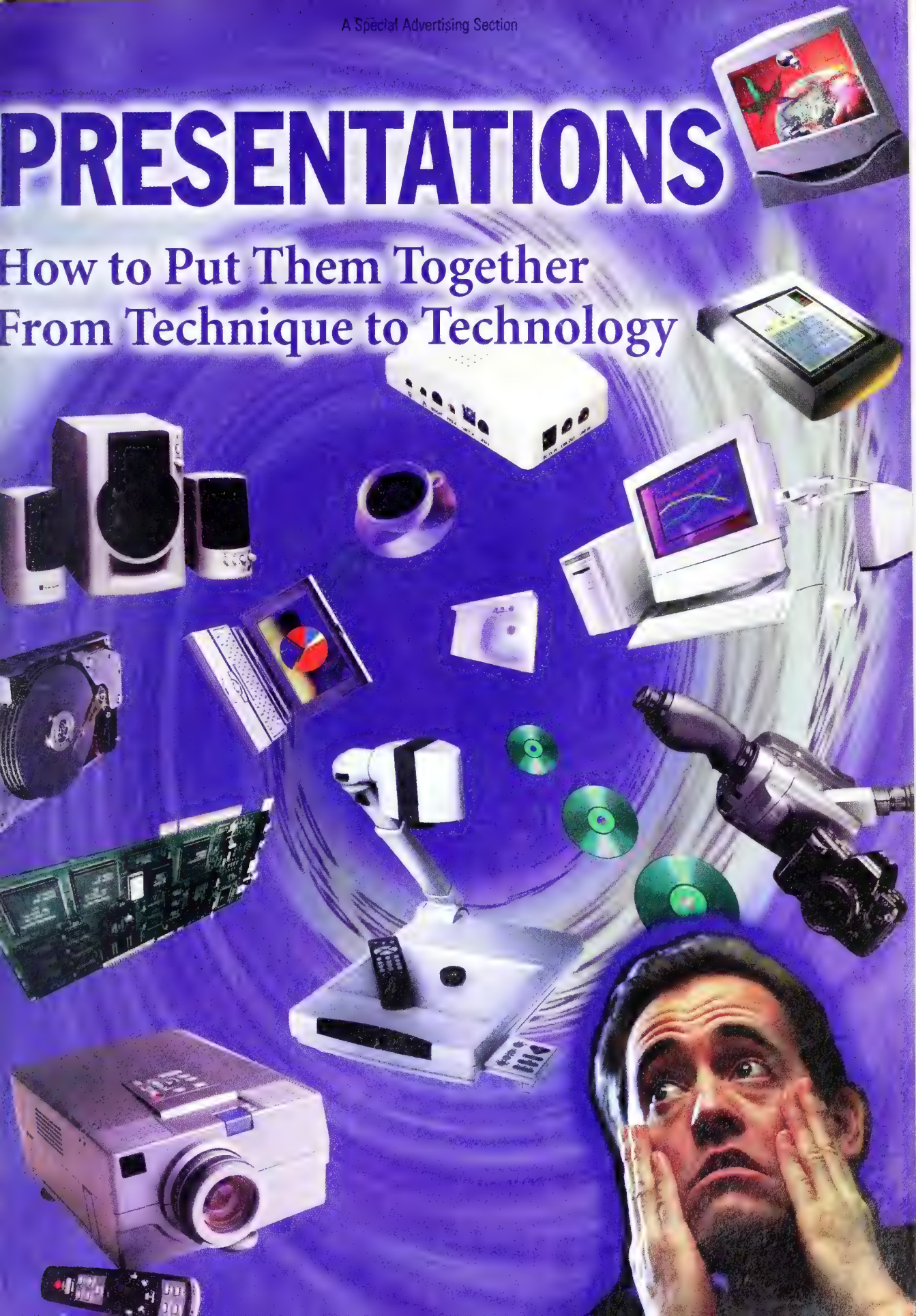
■ Researchers at CytoTheapeutics in Providence are developing a possible therapy for Huntington's disease. In the latest issue of the journal *Nature*, they report injecting hamsters' brains with cells engineered to make a new growth factor. The growth factor protected brain cells from a toxic substance that produces symptoms similar to Huntington's disease. The engineered cells were shielded by a capsule just permeable enough to let the growth factor out.

■ Late March and early April are prime viewing times for Comet Hale-Bopp and its unusual twin tails. While the Internet is awash in Hale-Bopp information, the U.S. Naval Observatory site has a valuable guide. Just type your city and state, and become viewing times and where to look. The guide is at <http://aa.usno.navy.mil/aa/docs/halebopp.html>.

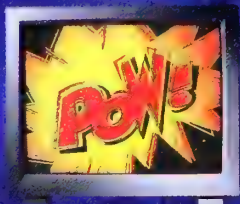


PRESENTATIONS

How to Put Them Together
From Technique to Technology



**YOUR NEXT PRESENTATION
COULD PACK ANYTHING FROM A NICE PUNCH**



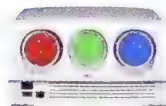
TO A BIG WALLOP.



MultiSync® Multimedia Monitors:
29" CRT (27" viewable image size) and
37" CRT (35" viewable image size).
Excellent image quality and reliability
for groups from 3-20.



MultiSync® MT™ Series LCD Projectors:
Lightweight and portable
for the truly mobile professional.



MultiSync® XG Series CRT Projectors:
Our most technically precise, versatile
projector for fixed installations.

You want your next presentation to have impact? Well, you've got it. NEC offers a complete range of large screen displays, including multimedia monitors, LCD projectors, and CRT projection systems. We've designed image systems to insure maximum presentation impact for virtually any audience, any room, or any lighting situation.

No matter which system fits your needs, you will experience the superior image quality inherent in all NEC displays. And, naturally, you can count on NEC's reliability and compatibility with nearly every video and computer source.

Whether you just want to raise eyebrows or completely blow doors off, call 1-800-NEC-INFO. To receive information via your fax machine, call 1-800-366-0476.

SEE, HEAR AND FEEL THE DIFFERENCE.™

PRESENTATIONS

How to Put Them Together From Technique to Technology

BY CLAUDYNE WILDER



The advent of powerful laptop computers and easy-to-use software has made it possible for business people to produce graphic presentations without the aid of professional designers. Although this may result in cost savings and new communication opportunities, the outcome is, too often, presentations that are inadequately planned, clumsily executed and poorly received.

Technology can give you a significant edge, but only if you know how to use it. More than a laptop and a state-of-the-art projection system are needed to create effective presentations. This article will explain how your presentations can be made more successful through improved body language, format and content, as well as through the effective use of available technology.

The five key areas to be considered in developing presentations are:

- The technology.
- The messenger.
- The audience.
- The screens.
- The preparation.

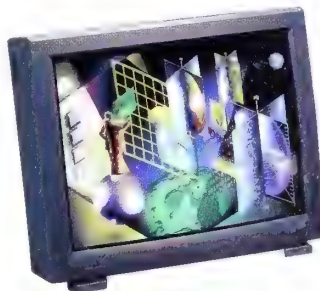
KNOW THE TECHNOLOGY

Before creating screens, you need to know how they will be shown. There's no sense in creating screens in gorgeous color if they're going to end up being shown in black and white. There's no point in using photos and video clips if they're going to be run at a size that makes them invisible beyond the first few rows of the audience. You don't have to be an expert in the technology, but you should know what your choices are and their benefits and drawbacks.

Laptop Computers A client recently told me that despite having a better product, he'd lost an important sale when the competition—using a laptop computer—delivered a more exciting presentation. Apparently the glamour and glitz of the multimedia show had overshadowed the hard data. As a result, the client now insists that his sales people be trained to use laptops. And he's not alone. More and more companies are finding that their sales, technical and field people need

not only laptops, but the software, the projection equipment and, particularly, the training that will enable them to give more effective presentations.

LCD Panels An LCD (liquid-crystal display) panel is a flat piece of equipment about two inches thick, weighing around seven pounds. It is placed on top of an overhead projector and the panel is plugged into the computer holding the images for the presentation. The images appear on the panel, and the light from the overhead projector shines through, projecting them onto the screen. If the overhead projector puts out 4,000 lumens (standard units of brightness) or more, the panel will display a fairly bright picture. Some older overhead projectors, though they are bright enough for transparencies, don't have enough lumens to make computer images sparkle on the screen.



NEC XM37

LCD panels may be a good alternative for cost-conscious buyers, as there's a price difference between LCD panels and LCD projectors. And for some users, especially those using only

**IT DOESN'T
MATTER HOW GOOD
AN IDEA IS
IF YOU HAVE TO
SQUINT TO SEE IT.**

PICTURE THE BEAUTY OF DIGITAL LIGHT.

Circle 87 on Reader Service Card

THE DRAMATIC NEW DIG



You know the feeling. You put enormous effort into

the subtleties of a visual presentation, only to have them lost on their way to the screen. No longer.

Introducing a revolutionary all-digital display technology. The final link to presenting information digitally. (Since you already create, edit

and store your presentation digitally, shouldn't you display it that way, too?) An innovation made possible by digitizing light. Treating digital images as digital data. And reflecting them from their original source directly to the screen. We call it Digital Light Processing™

(DLP™) created by Texas Instruments.

The result is a presentation that loses nothing in the translation. For the first time the screen is as clear as a just-washed window. The colors of the graphics look natural without the usual flicker and

Your presentation was created digitally. Edited digitally. And stored digitally. Now there's a way to present it digitally.



bloom. And PowerPoint® slides appear as sharp as 35mm film. From nearly any viewing angle. Even in a well-lit room.

But to be truly revolutionary, a new technology also must be accessible. That's why projection

systems featuring DLP technology are affordable. Easy to use. (Imagine the freedom of a technology you don't need a technician to control.) And available today from Davis, Electrohome, InFocus, nView, Projectavision and Vidikron at a dealer near you.



Witness the revolution in visual resolution with DLP technology. Text and graphics have the sharpness of 35mm film while projecting seamlessly with uniform brightness from top to bottom, side to side and corner to corner of a screen.

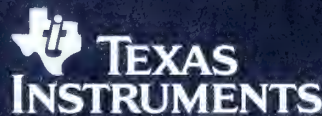
You may also call 1-888-DLP-BY-TI, ext. 999, to receive more detailed information. Or, if you prefer, visit <http://www.ti.com/dlp> for an online demonstration of TI's revolutionary all-digital display technology.



Digital Light Processing and DLP are trademarks of Texas Instruments, Incorporated. PowerPoint is a registered trademark of Microsoft Corporation. ©1997 TI

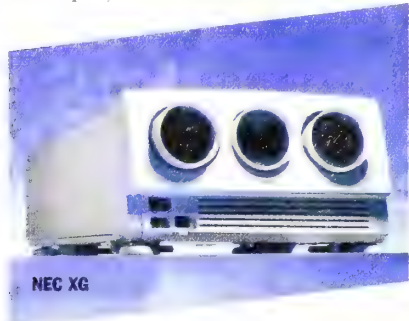
21803

TECHNOLOGY FROM TEXAS INSTRUMENTS.



black-and-white screens, even a low-end LCD panel may suffice.

LCD Projectors In the past few years, LCD projectors, combining a projector and an LCD panel, have become increasingly popular. One reason for this is that all you need to display images is a single cable that connects the projector to the laptop. LCD projectors are also



becoming more portable and easier to use, which makes them favorites of presenters who travel.

DLP The latest thing in projection technology is DLP—Digital Light Processing. Digital Light Processing is based on a microchip called a Digital Micromirror Device (DMD), which was developed by Texas Instruments. On the front of each chip are 508,000 tiny aluminum mirrors, each representing one pixel in an 848-by-600 array. Light is reflected off these mirrors and through a color wheel, producing color video or data images of extremely high quality.

Traveling A presenter who uses equipment supplied at the site of the presentation is at the mercy of that equipment's quality and condition. If you dislike surprises, you'll probably want to bring your own equipment. The benefits are many: You can thoroughly test all the equipment before the presentation. You'll know how to hook up the equipment. You'll know how your screens are going to look with this particular projection system, and how to adjust the system to get the best color. You won't have to worry about whether the equipment will, in fact, be waiting for you when you arrive. The

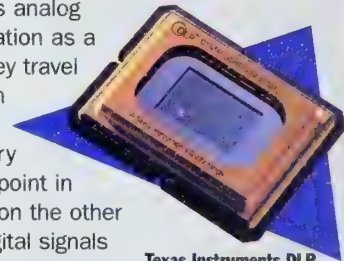
DIGITAL LIGHT PROCESSING: TEXAS INSTRUMENTS LIGHTS THE WAY

Texas Instruments' announcement in April 1996 that it was shipping its new Digital Light Processing subsystems for use in display systems marked the end of a concentrated four-year effort to develop a digital projection system based on TI's Digital Micromirror Device. Since then, 13 companies have introduced or announced products using DLP subsystems for a wide variety of applications, including business, education, home entertainment, commercial theaters and sports.

In the past, most images have begun as analog signals, which move from source to destination as a stream of electronic impulses. Because they travel as a continuous stream, varying in strength according to the nature of the content, the precision of the resulting image can vary as well, depending on how well or at which point in its cycle the signal is read. DLP projectors, on the other hand, are all-digital, from input to display. Digital signals carry their messages as precise pulses of electronic information, which are restored to the form of an image when they reach their destination, resulting in high brightness, sharpness, contrast, resolution and color fidelity.

The combination of DLP systems' versatility and the high quality of their images make these systems leading contenders for movies, business applications, television and computers. DLP systems can switch between television or movie projection to computer display projection with no degradation in image or color quality—an ability most of today's analog systems lack.

Some visionaries are already predicting that televisions and personal computers will become one device. Others believe that TV cable services, telephone networks or satellite systems will be the interactive pipelines of information. Regardless of what type of convergence between delivery systems occurs, the display of the future is available today: Digital Light Processing.



Texas Instruments DLP

disadvantage, of course, is that you'll be lugging everything around with you.

Resolution Here's another pitfall—potentially a fatal one—awaiting presenters who rely on someone else's projection system.

Until recently, most laptop computers had a resolution of 640 by 480 pixels, meaning that there are 640 columns of pixels going down the screen and 480 rows of pixels going across. Manufacturers of LCD panels and projection systems made products to work with 640-by-480 resolution.

Most new computers now offer 800-by-600 resolution, which provides a much sharper picture. Projection-system manufacturers, therefore, are now making systems that work with this higher resolution. If you have a computer with 640-by-480 resolution

and you come across an 800-by-600 projection system, the equipment should work just fine. If, however, you have a new computer with 800-by-600 resolution and are given a projection system that operates at the lower resolution, you may run into problems. The system may work well, or it may work poorly, meaning that part of your image could be cut off, or it may not work at all. The importance of finding out the resolution of the projection system you'll be using should be obvious.

Hint: If you're in the market for an LCD projection system and you don't need the higher resolution, you should be able to find some excellent bargains on 640-by-480 systems.

The next special advertising section in this series will include a checklist to help you shop for a projection system.

1

Extremely bright.

2

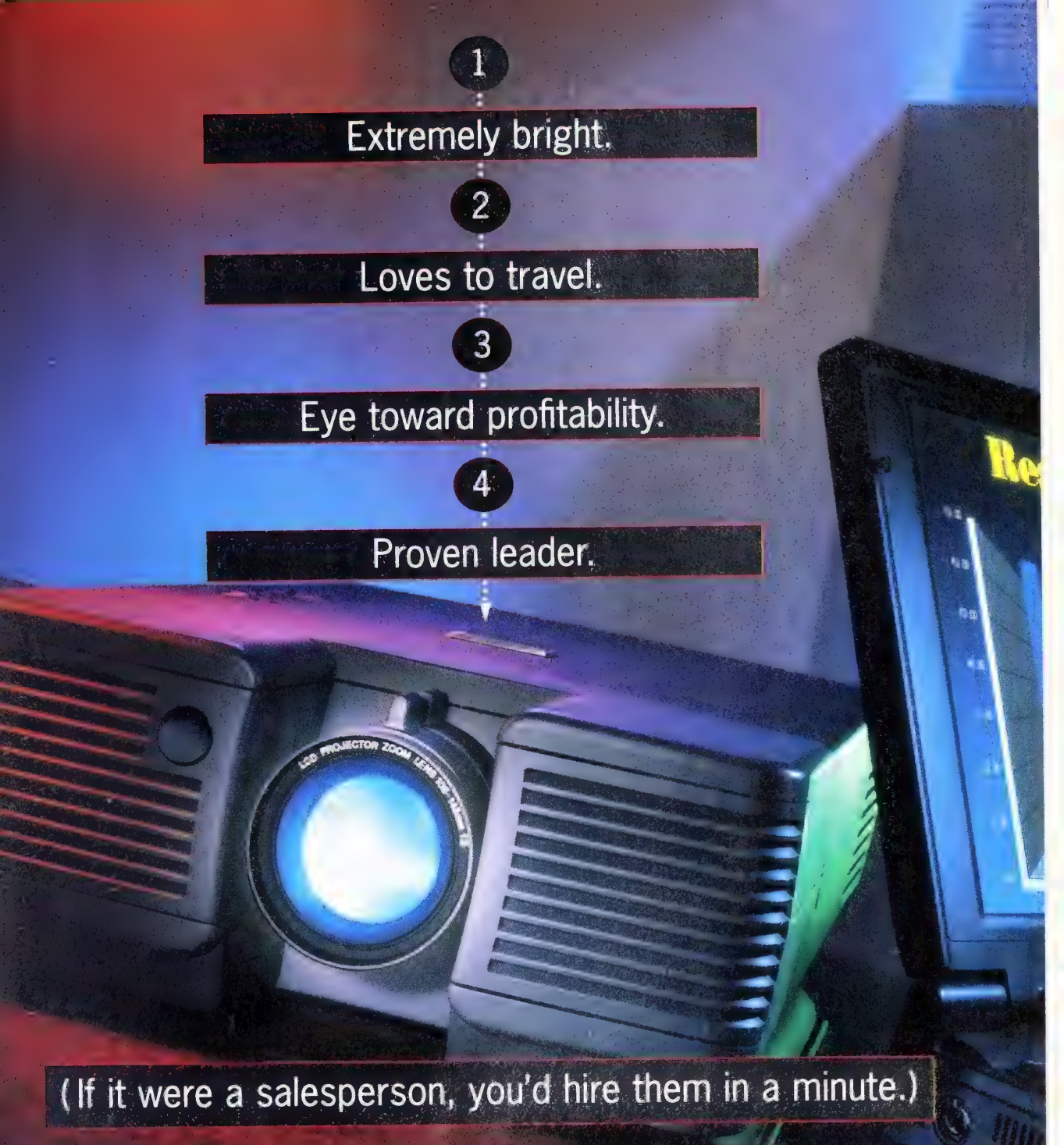
Loves to travel.

3

Eye toward profitability.

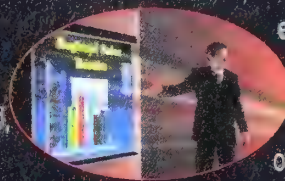
4

Proven leader.



(If it were a salesperson, you'd hire them in a minute.)

Lightweight, portable, and a mere 5" high, our NoteVision XG-NV1U LCD projector can slip into an carry-on bag along with your notebook. But performance is anything but lightweight. First of all, SVGA and Mac™ compatible. Its metal halide lamp produces an image so bright, you can present with the lights on.



Plus it has built-in stereo sound. Then, to make NoteVision even easier to use, we're also offering a free CD-ROM version of Astound®, the premiere presentation software.* So help your sales force project the image of a leader. Hire our new NoteVision. For more info, call 1-800-BE-SHARP. Or visit us at www.sharp-usa.com

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SHARP
FROM SHARP MINDS
COME SHARP PRODUCTS™

Bells, Whistles And Mice There are products available for every need. Many LCD projectors have a built-in sound system, many have a remote mouse, and some have a disk drive, which means that you don't even need your laptop: Just put in your disk and start your presentation! Keep in mind that without a laptop, you won't be able to customize or tweak your presentation, but this may not be a problem. If it isn't, having to carry only one piece of equipment is great!

An obvious but important point: If you're going to rely on the site's system, talk beforehand with the person in charge of the equipment, and ask lots of questions. If you're going to be using an LCD panel, be sure to ask whether the overhead projector on which the panel sits puts out at least 4,000 lumens—ideally more. If your contact assures you that he used the equipment just last week and the screens looked fine, don't stop there. Maybe his screens contained nothing but text and hardly any color. That won't tell you much about how your photo-intensive, brightly colored presentation is going to look.

If you can't find anyone to answer your questions, arrive early. You may even want to come prepared with two presentations: one in color, one in black and white. If the equipment is old and the light very dim, go with the black and white.

Hint: Don't use a stark white background. It's hard on viewers' eyes. Use a light gray (10 percent) or a light blue.

THE MESSENGER IS THE MESSAGE

In the words of Roger Ailes, Ronald Reagan's media coach, "The secret of presentation training has always been: You are the message." Fancy screens won't make up for a soft monotone coming from a stiff, robotic presenter. Studies show that 75 percent of a presentation's effectiveness is created by the tone, style and body language of the

speaker. Yet most people, especially now that the tools for creating presentations are widely available, devote a great deal of time and effort to developing a presentation and almost none to practicing it. Speaking skills and body language are matters of life and death: You can give your message life with the enthusiasm it deserves, or lay it to rest with a voice worthy of an eulogy.

Presenters must learn to establish rapport with the audience by looking at them and speaking to each person.

Some projection systems can now be used with the room lights on high or only partly dimmed, but even if the lights will be off while you're displaying your screens, don't take refuge in darkness. Begin with the lights on high and on you. Have someone dim them once you start showing the screens and turn them back on at the end of your talk—or before, if you decide to take questions partway through.

That brings us to the actual talk and how it is delivered. Do you recognize your-

TURFWAY PARK WINS BIG WITH PHILIPS

Officials at Turfway Park, a raceway in Kentucky, wanted to expand and remodel their facility to allow live broadcasts of racing events from other tracks. How could they showcase up to five live races from around the country, along with on-screen statistics and wagering information, with picture quality suitable for an audience of more than 300 racing fans?

Philips Professional Products provided a winning solution with the installation of five LC3500 projectors, which are now part of Turfway Park's closed-circuit television system, displaying live races from around the country via satellite.

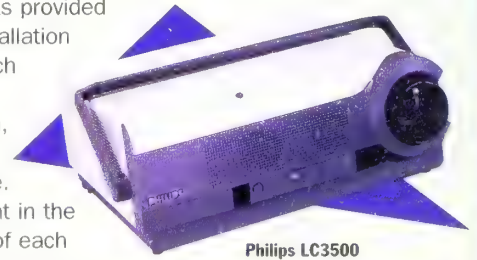
The system provides every seat in the room with a clear, sharp view of each race and the accompanying information, making it easier for fans to take notes and making the entire experience of The Race Book, as the remodeled facility is called, more realistic.

"The Philips LCD projectors replaced the CRT projectors that were being used," says Mark Galjour of Galjour Electronics, the video-production and closed-circuit-television operator for Turfway Park. "We compared Philips projectors with other LCD projectors and CRTs, and selected Philips LC3500 projectors for their brightness, sharp picture and sealed-light-path technology, which gives extra life to the lamp. Since these projectors run 10 to 12 hours per day, seven days a week, reliability and long lamp life were important factors in our recommendation to our customer."

The Philips projectors broadcast up to five events on 15-foot diagonal screens from more than 30 feet away. Each screen is surrounded by 27-, 31- and 35-inch television monitors, providing race footage, prerace events, and statistics and wagering information.

The LC3500 is ideal for any educational or training setting. The projector's high light output, outstanding color uniformity and brightness allow even large audiences to view presentations easily under almost all lighting conditions, including daylight. With the "plug-and-present" capabilities of the LC3500, users can display text, data, graphics and video presentations from a single projector, using almost any computer or video source.

Following up its success at Turfway Park, Galjour Electronics is currently replacing CRT projectors with Philips LCD projectors in an off-track betting parlor in Louisiana. With the LC3500, fans of simulcast live racing need never again miss a photo finish.



Philips LC3500

Facing a tough audience?



**Relax. You'll feel comfortable
and look good presenting
with a Philips LCD projector.**



Everything about the new Philips Brilliance LCD projectors is designed to boost your confidence. Unique Limesco technology offers future-proof PC compatibility and instant recognition of connected equipment. Hassle-free operation lets you concentrate on your performance, not your projector's. You'll impress your audience with award-winning picture quality. And with the Philips Ultra High Performance lamp you'll project brighter pictures for up to 5 times longer than with a conventional lamp. Sounds like what you need to win over your next audience? Call Philips directly 1-800-504-9978 or visit our Web site at <http://www.philipslcd.com>

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Let's make things better.



PHILIPS

BACK TO SCHOOL WITH PROXIMA

Presenters University is a free, on-line resource, sponsored by Proxima Corporation, with tips, tools and training for everyone on giving effective presentations. Select from Courses, Advisor, Library, Cafe and Special Events for the latest updates in presentation techniques and technologies.

In the Courses area, you'll find introductory and advanced classes on a variety of topics. Courses are updated monthly with new applications based on research in the areas of audience retention and presentation effectiveness.

In the Advisors section, an on-line instructor helps you determine which courses are best suited for your presentation style and level of experience. The Library carries free clip art as well as links to other companies provided to assist you in locating information about presentation software, PC systems and peripherals and presentation accessories.

Campus Cafe is a live chat room that lets you exchange ideas and share experiences with other presenters. Advice for first-time presenters, technology tips, questions for experts, along with a list of venue favorites are some of the topics being discussed in the Campus Cafe.

Special Events includes up-to-date information on Presenters University Road Tours and Games.

Presenters University is located at <http://www.presentersuniversity.com>.



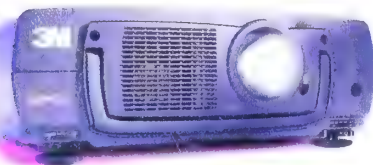
Presenters University

self in any of the following descriptions?

The Speed Demon Many people dislike being at center stage, so they speak as quickly as possible to get the talk over with as soon as possible. If they can shave off four minutes by never pausing at the end of sentences, they do.

Get into the habit of pausing to let the audience digest what you've said. This can be practiced. When you are alone, in the shower or in your car, talk out loud. Talk about anything you like, and pause after each sentence. Be careful not to fall into the number-one problem of presenters: filling silences with "uhs" and "ums." Instead, breathe between the sentences. Once you get the feeling of pausing, you'll be able to do it in front of an audience. And it will keep you out of another bad habit: speaking in a monotone. As you begin each new sentence after a pause, you'll emphasize the opening words. You can also train yourself not to mumble the last few words in a sentence but to speak them loudly and forcefully.

Bright.



500 ANSI lumens



Get more performance, tote fewer pounds. That's the brilliant idea behind our 3M™ MP8630 multimedia projector. Revving up your off-site meetings is a snap—you get true SVGA resolution to meet the demands of today's notebook computers, combined with an easy-carry handle and ingenious, fully enclosed lens design. The 3M MP8630 projector is compact enough to fit under your seat on the plane or in the tightest overhead compartment. And it comes with a multi-voltage power supply, VirtualMouse remote, and full multimedia capacity, including

The Screen Gazer The second-worst habit of presenters is not making eye contact. Too many speakers deliver their presentations to the screen. You may think that the audience's attention is fixed on your fascinating screens and that no one is watching you, but that's not the case. People look at you to see whether you're interested in them.

Look at individuals in the audience. Don't make it a staring contest, but look at someone for a full sentence or two. You may not be able to look at everyone, but you can certainly address each section of the room, aiming your talk at one person in each area. (If you're going to be delivering a presentation overseas, check that country's etiquette concerning eye contact first.)

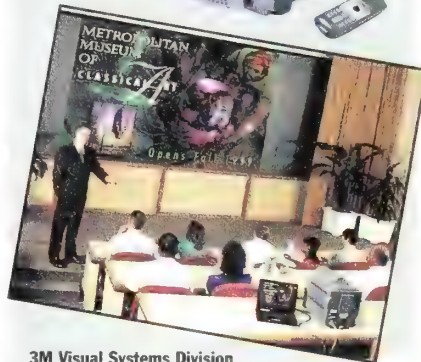
The Robot When you stand in front of an audience, you become another person. In many cases, unfortunately,

that other person resembles an android.

I was eating lunch one day with a group of people attending my presentation seminar. One man was telling jokes, laughing, gesturing and getting all of us involved. Just before lunch this man had given a presentation in what I call Robot Mode: stiff, unsmiling and uninteresting. After lunch I asked him, "How come you turn off all your personality when you get in front of the group?" His reply: "I remember deciding that a good presenter should be serious, not move, never smile and just give out the information." I encouraged him to let himself go in his next presentations, to be the person I saw during lunch. By the end of the two-day event, his colleagues were congratulating him on how much better he looked, sounded and acted. He had learned to be himself and to enjoy delivering a presentation.



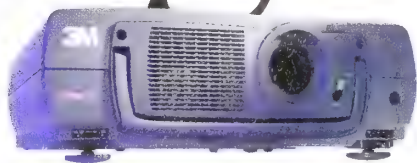
3M MP8650
multimedia
projector with
remote



3M Visual Systems Division

How can you tell whether you have any of these bad habits? Videotape yourself once a year. You will see your habits, both good and bad, and you'll be able to correct what you don't like and gain more confidence in what you do like. Also, ask for feedback—real feed-

Light.



18 lbs.

total video and audio capabilities. We offer a broad line of multimedia projectors ideal for most computer or video applications. We'll even send you a free video or informative CD-ROM, which demonstrates all the 3M electronic projection systems. So when your on-the-road meetings demand the best combination of image quality and portability, let 3M make the meeting. Just give us a call at 1-800-952-4059, or visit our website at <http://www.mmm.com/presentations>.



3M Innovation



simple by design

Success depends on powerful presentations.

You should know. You've built your career on them. If only the presentation *equipment* could be simpler to use. And simple is exactly what you get from the most advanced digital multimedia projector on the market. The DAVIS Powerbeam® V with Digital Light Processing™ is as simple to set up as it is to operate.

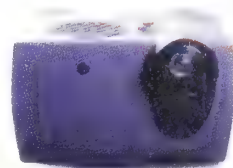
Use our interactive remote control to run the entire show—including the computer. There is no learning curve. The unique remote embodies the simplicity of our entire system. Even under high ambient light conditions, you'll get bright color and vibrant SVGA 800 x 600 resolution from any PC, Mac, CD, or video source. All in a footprint little bigger than the magazine you're reading right now.

Why DAVIS? Simply because we're dedicated to digital multimedia presentation technology that serves *you*—not the other way around. It's simple by design. It's the DAVIS Powerbeam series. The true plug-and-play solution for more powerful presentations.

Make your next presentation simple by design.
Call 888-798-9998 or visit www.davisna.com



THE
POWER
BEHIND
YOUR
PRESENTATIONS



DAVIS®



DLP

back—from your colleagues. Don't ask: "How was my presentation?" The response is going to be: "Fine." Ask focused questions instead: "What do you think I should continue, start or stop doing with my speaking voice?" "What two things can I do that will make me a more effective speaker?" "How can I improve my visuals in order to get the audience's attention?" Direct questions will get you real information.

MATCH THE PRESENTATION TO THE AUDIENCE

Single-Mindedness To be effective, a talk should have a single objective focused on the audience. Most don't. Your listeners want to know about the products' features, certainly, but mainly they want to know how the products will help them do their jobs better. Your goal is not to tell everything you know about a product or process; it's to explain how the product or process will help your audience.

A future special advertising section will take a more detailed look at creating an effective sales presentation with a single objective.

The Techie's Hex You've probably attended technical presentations being delivered to a nontechnical audience. The danger is obvious. The technical presenter cannot give potential customers the same talk he gives his colleagues. The objective of the presentation must change from "Give them all the technical nitty-gritty data of the new system" to "Provide a clear overview of the system." Don't leave out all your technical screens, however. Most software programs have a "hide slide" feature that's very easy to use. A similar feature is called "branching." You can keep screens that probably won't be needed in a separate presentation file and create an icon on one of your presentation screens that, when clicked, takes you to that other file.



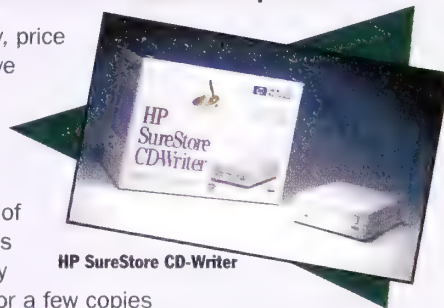
CAPITALIZING ON CD-R WITH HEWLETT-PACKARD

Because CD-ROM is a universal medium that every computer can use, it's a natural for presentations. In the words of Greg Brakel, vice president of multimedia and graphics for Computers Made Simple, a training company in San Antonio, Texas, "CD-R's multimedia functionality is ideal for creating course materials, presentation packages and interactive learning programs." Using a variety of applications, all multimedia materials can be incorporated into a seamless end product.

For reasons including capacity, price and portability, CD-Recorders have become increasingly popular in business and government. CD recording, however, has been hampered by the complex, time-consuming and costly procedure of CD mastering. This procedure has proved too cumbersome for many users, especially when only one or a few copies of a CD are needed. CD-R is changing this. New, inexpensive CD-R drives, such as the Hewlett-Packard SureStore CD-Writer 6020, are bringing the benefits of CDs to users with limited distribution requirements.

The HP SureStore CD-Writer 6020 comes loaded with software and is ready to run on most IBM and compatible PCs. The PC connects directly to the CD-Writer, with all interface settings automatically handled by the bundled software. Recording files to this device is as simple as recording files to a hard drive.

Easy-CD Pro software, included with each CD-Writer 6020, writes the CDs. It installs into the Windows File Manager as a pull-down menu. To copy files from the hard disk to the CD, the operator simply selects the files to be copied and lets the Easy-CD Pro program complete the file transfer. Files can be of any type—sound, data or multimedia. Alchemy Personal software, also included, automatically provides a table of contents or index for all recorded data on the CD. The table or index is placed on the actual CD-ROM, where it is accessible from any PC reading the CD-ROM.



HP SureStore CD-Writer

Know Your Limits One of the advantages of overheads (a very small advantage) was that when you found yourself trapped in the audience at a long, boring presentation, you could watch the pile of overheads slowly go down as the speaker droned on, and you could estimate how much longer you'd have to sit there. With laptop computers, the audience has no clue to how long the presentation is going to continue, unless a time limit has been set. The lesson is simple: Tell the audience how long you will be talking, and quit when you are supposed to. Don't go beyond

your time limit unless encouraged by the audience.

The Teller Of Tales One excellent way of making your presentation speak to a specific audience—and, incidentally, of staying out of the Robot and Screen Gazer categories—is to tell stories. Most people remember stories much longer than they remember collections of statistics. If the story is a good one, they may even tell it to their friends. Just be sure that the story fits logically into your talk and relates to your audience.

Here's a story that was told at an investor-relations conference to illustrate the perils of insider trading:

When John Smith gets home from work one Friday evening, he plays briefly

DAVIS CARRIES THE DAY AT CARRIER

Carrier Corporation, the maker of heating, ventilation and air-conditioning equipment and systems, wanted to modernize the presentation capabilities of its Customer Technical Training Centers with projection equipment that could be easily carried, plugged in and used anywhere, even in a fully lit room. The six-month selection process included reviews of at least 25 projectors. The result was the selection of the Davis Powerbeam V.

In mid-1996, Carrier decided to revamp its training facilities in Atlanta, Los Angeles and Syracuse, New York. The equipment-selection committee focused on two basic criteria: The new projection equipment would have to provide a simultaneous display on the computer system and the screen, and it would have to provide S-VGA resolution (800 by 600).

"We wanted our presenters to be able to see their group, addressing classes face-to-face in a bright room," says Wayne Keller, instructional designer and chairman of Carrier's equipment-selection committee. "We did not want our presenters turning around to make sure the image on the screen matched the image on their laptop. And we wanted our students to be able to take notes."

David J. Cizenski of Audio-Video Corporation, an Albany, New York, company specializing in video projectors, multimedia and distance-learning systems, happened to be on-site while the Carrier team was reviewing various projection systems. He recommended the Davis Powerbeam V.

"The Davis Powerbeam connected to and worked with our laptops better than any other projector," says Denise Bliss, Carrier's production administrator. Carrier decided to purchase 15 units, seven of which are being installed in Carrier's three domestic training facilities. The remaining eight will be used with laptops in portable presentations. "The projector almost sets itself up automatically," says Bliss. "It zooms to the proper focus, and it's truly plug-and-play, even adapting to the electrical current of an offshore location. What's more, the unit 'knows' and reads its source of input—PC, Mac or a UNIX-based system."

The first step into the digital world at Carrier is laptop training for Carrier instructors by outside trainers. "Using the Davis Powerbeam for the first time, together with their laptops, provoked a universal 'Wow' as these trainers viewed the brightest and sharpest output they had ever seen from their own equipment," says Bliss.



Davis Powerbeam V

Make It Flow Ask yourself whether your presentation makes sense and whether it has a logical flow. Does what you're trying to communicate follow a logical course in the audience's mind? Most graphics software on the market offers formats that you can use to put together your presentation. Formats are provided for such topics as recommending a strategy, selling a product and communicating bad news. Using a format will give you a logical framework that you can then modify based on your audience.



SCREEN YOUR SCREENS

There are two ways to analyze your visuals: looking at each screen individually and looking at the presentation as a whole. Do both.

The Parts As you examine each screen, ask yourself what its single most important concept is, and how well it communicates that to the audience. Look at your charts and graphs. Have you chosen the best way to illustrate each point? Are the charts big enough to be read? Are there so many bars on the bar chart that none of them is decipherable? Is the pie chart cut into so many pieces that it no longer means anything? Is the trend line on the graph so faint that you can barely see it? You don't have to show everything on one screen. In fact, you should consider showing your audience only the highlights and saving the detailed statistics for your handouts.

Check the text on each screen for clarity, brevity and legibility. The sooner the message gets across, the better. And

with his 7-year old daughter, then says goodbye. "Daddy, where are you going?" she asks. "To camp for the weekend," replies Smith, the former vice president of investor relations at a large company. For two years, Smith tells his daughter the same lie. The truth is that he's spending his weekends in jail for insider trading.

This story is very good at addressing the interests, priorities and motives of its audience. If you want your message heard, you must connect it to the lives of your audience, preferably in a dra-

matic way. A story can do this in a way that another fancy screen simply can't.

When you tell a story:

- Make it relevant to the audience.
- Keep it simple and to the point.
- Use silence for drama, pausing between sentences and emphasizing certain words.
- Don't tell the story as if you were reading numbers off a chart.
- Let yourself be dramatic: Gesture, use facial expressions and walk around if appropriate.



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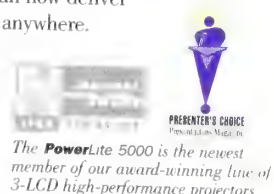
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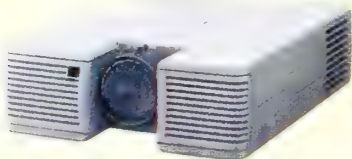
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check your spelling, too, if you don't want to hear snickers from the audience when a particularly silly error shows up in big, bold type.

The Whole Once you have created all your screens, lay out a hard copy of your presentation on a table and look at it in its entirety. See how everything



Sharp Note Vision XG-NV1U LCD projector

works together, whether you have inconsistencies in font sizes, unclear or overlong headings, unnecessary clip art and so on. Are there transitions between the major points? Does the presentation look like a single entity, or like a couple of different presentations thrown together in a hurry?

As you examine the organization of your presentation, think about how to make it clear which product or project you are discussing at any given time. Suppose you are going to cover three projects, each of which will need four or five screens. You don't want to run the name of each project at the top of each screen—that would conflict with your headings—but you're sure that without some reminder, the audience will lose track of which project you're talking about. One effective solution is to run the name down the side of the screen. Everyone sees the name of the project or product all the time, but it's not in the heading. The headings themselves should be different on each visual. Both the audience and you should be able to look at the screen and know instantly what it's about. A clear, simple heading tells you.

As you look at the content and flow, decide where in your presentation you have the chance to interact with the

audience. Have you put in questions to ask the audience? Have you put in information about the audience? If your presentation is going to take an hour and a half, have you planned for a pause in the middle to let your listeners ask questions? All these things can be put right on your screens. Including a screen with the word "Questions?" in big letters guarantees that you won't forget to ask.

Some presenters think that every screen should have a new picture. Not so. Though today's technology lets you create exciting visual effects quickly and affordably, many people bewilder their

audiences with enough pictures in a 20-screen presentation to start a clip-art library. Most people do absorb and process information more effectively when it's conveyed visually, but too much will obscure your message rather than highlight it. Laying your entire presentation out on a table will let you see whether you've used too many pictures.

PRACTICE, PREPARATION, PROTECTION

You need to practice your presentation—out loud, using all your equipment, in the clothes you'll be wearing for the real thing. This generally means

SCREEN CHECKLIST

ORGANIZATION

Major point:

What is the major point of this visual?

Information to leave out:

What information can be omitted from the screen and covered in the speaker's text?

Clip art:

Use only clip art relevant to the point in question.

CLARITY

Illustration:

Can this information be best illustrated by a chart, a table or a picture?

Attention:

Where in the visual is the attention focused?

Arrows:

Use an arrow or other symbol to point out the important part of a chart or diagram.

Emphasis:

Can key information in a table be highlighted for emphasis?

Statistics:

Use speaker notes explaining how statistics were gathered.

Photos:

Will the photos work with the equipment they will be displayed on? Will the colors show up? Is there enough memory to bring them up quickly?

TEXT

Phrases:

Use phrases, not full sentences, whenever possible.

Parallel structure:

Either all your phrases should start with verbs or all should start with nouns. You'll find it easier to present when all your phrasings are parallel.

Terminology:

Use only words and abbreviations familiar to the audience. If you must use unfamiliar words, explain them. Avoid jargon.

Be concise:

When using a picture, use a minimum of words. If all the words needed to explain the picture are up on the screen, why does the audience need to listen to you?

Fonts:

Your fonts should be sans serif. This is especially important for bulleted phrases. Common sans serif fonts include Helvetica, Arial, Optima and Avant Garde. Serif fonts can be a bit harder to read, though they can often be used effectively for titles. Times, School-book, Bookman and Palatino are examples of serif fonts.

Spelling:

Don't trust the spell-checker. Read every screen carefully, with a dictionary at your elbow.



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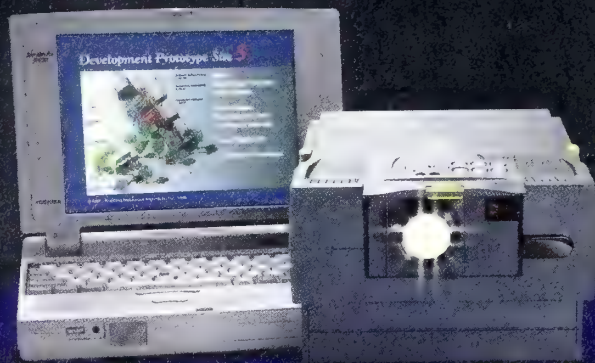
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doing a complete run-through shortly before the actual presentation is to begin. You may think you know how to use the machines, and you may think you know where you'll stand in order to see the laptop or the screen, but until you actually practice the presentation, you can't be sure.

In one of the first presentations I gave from my laptop computer, I found myself using an old overhead projector and an LCD panel to deliver a presentation to 200 people. The five-star conference center had assured me that it had the equipment I needed, so I didn't ask any questions. I discovered that a lack of screen brightness and washed-out colors at an 8 a.m. meeting does not make for a cheery, motivating session.

That experience was the only lesson I needed. Since then, I've always made sure that the equipment is really going to do what I want it to do. If you're giving a talk at a company's site, it will be very difficult to complain about your equipment once the conference is under way. You need to do your research, try out your equipment and make your demands before the conference begins.

If you're delivering a presentation at a reputable hotel, it may be natural to assume that the hotel's equipment will be of high quality. That, alas, is not always the case. Talk to the staff, and ask lots of questions. Many hotels now rely on an outside company to supply their presentation equipment. Such a setup tends to be better: The equipment is usually newer, and the technicians generally know how it works. But don't assume anything. Make sure that the service doesn't simply leave the stuff in the conference room, expecting you to set it all up. You want the technician there when you arrive, and you want him to stay until you have your visuals up on the screen and you're satisfied with them. And find out whether a technician will be available during the day, in case the system stops working.

Crucial questions to ask when using

SHARP LAYS DOWN THE LAW ON LCDs

With the community growing at a steady pace and dozens of new officers coming on board, the Oxnard Police Department in California faced an enormous training challenge. More than 179 sworn police officers service a 24-square-mile area, home to more than 155,000 people.

Tom Chronister, senior police officer, decided that the department needed to upgrade its training tools to meet new demands. "We were falling behind in our ability to sufficiently train our officers on how to work in the field," says Chronister. "We had a 15-inch TV screen in a classroom setting with 30 squinting eyes, and the messages weren't getting across to our officers. This all changed when I outfitted our class with the Sharp projector."

Using the Sharp XG-E1000U multimedia LCD projector in officer training classes, instructors are able to deliver a more impressive and practical form of field training than slide projectors and VCRs can provide.

The XG-E1000U and its successor, the XG-E1100U, are LCD multimedia projectors that offer 600 ANSI lumens of light output. These data/video projectors are directly compatible with most popular computers and video sources, including VCRs, camcorders and videodisc players. They produce bright, clear images in almost any lighting environment. Both incorporate carrying handles, and they can be operated from any table or AV cart. They can also be ceiling-mounted for more permanent installations.

"Besides the fact that we can now keep the lights on when using the XG-E1000U, the other big draw of the projectors is that they are so easy to use," Chronister says. "Having this type of equipment with a plug-and-play approach was what I was looking for when reviewing several different models." The department has begun implementing the XG-E1000U for training in how to use the department's laptop computers in the field, and for video instruction.



someone else's equipment:

- What are the make and model of the equipment I will be using (to be sure of the lumens, the resolution and other important factors)?
- How far ahead of time can I set up the equipment and try it out?
- Will a technician be there to help you set up and to make sure that everything is working?
- Will a technician be available during the day?

If you're buying your own equipment, you should check out the available support. Most of the equipment we're discussing requires some technical support—not a lot, but some. Unless you love fiddling with machinery, you won't want to spend several hours learning



how to make the equipment do its job. You'll want local dealer support: someone to show you how the stuff works, explain the menus, teach you some tricks and techniques and watch you while you practice. Then you'll feel a lot more comfortable using the system on your own.

What Could Go Wrong?

Plenty. You definitely want to err on the side of too much preparation. The following checklist will protect you from most of the more common causes of presentation disaster.

Plan for a crash: What's your back-up plan in case the computer goes down? Will you have overheads? Slides? Printed copies of your talk?

OVERALL LOOK CHECKLIST

ORGANIZATION

Logical flow:

The presentation should follow an agenda.

Group your data:

Arrange your information so that the audience can follow it easily.

CONTENT AND FLOW

Variety:

Is there variety in the visuals? Don't show six pie charts in a row. Vary your layout styles as well.

Number of visuals:

Don't use too many screens. Save some as backup material in case questions are asked.

Audience interaction:

It's often a good idea, especially in long presentations, to pause midway, turn up the lights and take questions.

Transitions:

Use verbal and visual transitions to move to new subjects.

Personalize:

How has the presentation been customized for the audience? Does the talk refer to the audience by name and interests from time to time?

TEXT

Font sizes:

Use 24-point type or larger.

Headings:

Use a different heading for each screen. Make it easy for the audience to know the focus instantly.

Typefaces:

For consistency, use only a couple of typefaces throughout. Use all capitals in headings. For bulleted phrases, capitalize only the first letter of the first word.

your computer's screen saver? Do you want it to cut in while you're answering a question from the audience?

Disk and compression program: If you're bringing only a disk, not your laptop, do you have a backup copy? If you've used a compression program to store your presentation, do you have a copy of the compression software with you? If the on-site computer doesn't have the compression program, you won't be able to retrieve your presentation. (It may make more sense simply to split a large presentation between two disks instead of compressing it.)

Linked files: Have you saved all related or linked files, such as video clips, that you'll be using in your presentation?

Rehearsal time: Have you scheduled sufficient time at the location of your talk for a complete rehearsal and the correction of any problems that show up?

Fancy technology can help you create more understandable, more motivating and more interesting presentations. The key is preparation. Prepare your screens to work on the equipment you'll be using. Prepare yourself by growing familiar with the system. Finally, practice the whole talk out loud, attempting to make the rehearsal as much like the actual event as possible. Do all these things and you will dazzle your audience and yourself. ■

Electrical adapter: If you are traveling overseas, do you have an electrical adapter kit, just in case the hotel or company you're visiting does not?

Surge protector: Use one. It needn't be a pain to carry around: You can buy one in the form of a plug that fits on the end of your laptop's power cord.

Extension cord: It may increase your options of where to put your laptop.

Extra power cord: If you're rough on your equipment, you may wish to carry an extra cord. I once arrived at a conference and discovered that the plug on my laptop was broken, the battery was drained and the charger didn't work. Not a pleasant experience.

Battery charger: Do you have it? Does it work?

Remote mouse: Is it installed on your computer? Have you practiced using it? A speaker I know had never practiced using her new remote mouse. Several times during her presentation she looked up at the screen and was shocked to see that the next visual was already up there. It turned out that she had a

nervous habit of moving her thumb, and she was inadvertently clicking the forward mouse button as she talked. Curing a wandering thumb before getting up in front of an audience is a lot easier than doing it during the presentation.

Extra mouse: Do you carry your regular mouse in case your fancy remote mouse doesn't work?

Laser pointer: This can be a great help when explaining charts, but you have to hold it still on the screen. If you keep moving the red dot around, your audience will get dizzy. Practice with the pointer beforehand. And bring extra batteries.

Arrow: Practice keeping the little arrow motionless on the screen. Better yet, hide it from the audience's view when it's not needed.

Extra Bulb: If you're carrying an LCD projector, do you have a spare bulb? Projectors usually have two, but sometimes one burns out and no one thinks to replace it. Always check to be sure that both bulbs work.

Screen saver: Have you turned off

Claudyné Wilder's Boston-based company specializes in presentation training and materials and visual design consultations. Her latest book is *Point, Click, and Wow! A Quick Guide to Brilliant Laptop Presentations*. She can be reached at 617-524-7172 or via E-mail at claudyne@wn.net. Her Web-site address is www.wilderpresentations.com.

This supplement was prepared for Knowledge Industry Publications, division of Phillips Business Information, Inc., publisher of *AV Video & Multimedia Producer* magazine.

Editorial Offices:
701 Westchester Avenue, White Plains, NY 10604

For Subscription Information:
Contact Rosanna Neve at (914) 328-9157
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IN FARMERS LIVE WITHOUT THIS DEADLY GAS?

Butyryl may head off a U.S. ban on methyl bromide

The fumigant methyl bromide is a nasty stuff. It is lethal to any animal, in large doses. And the effects are long-term but faint exposure are unusual. Lab animals tend to die from even small amounts. On top of that, the gas depletes the ozone layer.

Considering methyl bromide's reputation, the news that it's due to be phased out in the U.S. on Jan. 1, 2001, might seem like a welcome development. But the prospect of a ban has troubled thousands of U.S. farmers. For unpleasantness, methyl bromide is an important chemical. It is unmatched for sterilizing the soil before planting berries, tomatoes, and the like. It

research teams worldwide have found no magic bullet. Nothing safe and economical, it seems, can do everything that methyl bromide does. Indeed, the scientific work has fragmented into a search for narrow, sometimes peculiar alternatives. Plowing broccoli into soil controls a cauliflower fungus; scattered fish meal protects tomatoes. "It's fruit by fruit, bug by bug," says fruit-fly expert Robert Mangan of the U.S. Agricultural Research Service (ARS). "We won't have solutions to every problem."

Environmentalists and concerned citizens who live near farms haven't given up on the ban. And the law is in their favor. Once methyl bromide was found to

with plastic sheeting. Within 24 hours, it kills parasites, fungi, weed seeds, rodents, and anything else that harms plants. Packers and shippers use much of the remaining 13% on grapes, nuts, and other commodities after harvest, or on storage buildings and containers bound for overseas.

Farmers have tried other chemicals, such as metam sodium and phosphine, but none can match methyl bromide. They've also tried sterilizing soil by sprinkling hot water from truck-mounted boilers—like giant teakettles—and by trapping sunlight in plastic. But such methods offer only sporadic relief.

"EUREKA." Destroying pests in commodities for export is just as difficult. One experimental irradiation process effectively renders bugs infertile, says ARS research entomologist James G. Leesch. But inspectors have no way to distinguish the sterilized survivors from new bugs that enter containers later on. Large-scale irradiation equipment is also expensive and generates wastes.

There is one other promising solution to the dilemma: recapturing the gas to curb emissions. Leesch and GFK



STRAWBERRY FIELDS: Long-term effects of the fumigant are unknown

so tops at treating farm commodities before they're shipped across borders. In all, more than 100 crops depend on the chemical in some way.

MEAL. Methyl bromide is so good at controlling pests, in fact, that many farmers refuse to accept imports unless they've been dosed with it. If it were withdrawn, farmers in California alone would lose \$241 million annually in exports and reduced yields, the University of California at Berkeley estimates. The upshot: The chemical's death sentence seems likely to be commuted. Researchers have struggled mightily to find safe alternatives. Yet six years before the deadline was set, dozens of

deplete the ozone layer, the Environmental Protection Agency had no choice under the Clean Air Act but to prescribe a phase-out. That put the U.S. ahead of most other countries, which face a 2010 deadline under an international agreement called the Montreal Protocol. But the government is unlikely to force farmers to swallow gargantuan losses. "It's becoming a desperate situation," declares Peter G. Sparber, lobbyist for the Methyl Bromide Working Group. The group is funded by the chemical's manufacturers, including Great Lakes Chemical Corp. and Albemarle Corp.

Most of the methyl bromide used—about 87%—is injected into soil covered

DEALING WITH METHYL BROMIDE: SOME HALF MEASURES...

BREED HARDIER PLANTS Tobacco, apricots and other crops are resistant to worms

STERILIZE SOIL BEFORE PLANTING Ideas include using steam, sunlight, or fumigants such as chloropicrin

KILL PESTS AFTER HARVEST Possible agents are heat, cold, radiation, carbon dioxide, and chemicals such as carbonyl sulfide

REDUCE METHYL BROMIDE EMISSIONS Researchers recapture gas from fumigation chambers and pass it through activated-carbon filters before release

Consulting Ltd. in San Clemente, Calif., co-developed an industrial gas mask that fits over the vents of fumigation chambers and traps methyl bromide in activated carbon filters. It could reduce emissions by as much as 95%, they say. That's still a threat to the ozone layer. But it's a big improvement over current methods, which allow 80% of the stuff to escape.

Ultimately, methyl bromide's fate hangs on political interests, rather than a "eureka"-style breakthrough. Given the clout of legislators from the farm states, the chemical will probably survive well into the next century.

By Greg Burns in Chicago



EDITED BY EDWARD C. BAIG

SO YOU WANT TO BE A WEB-PAGE WIZARD

You're thinking maybe it's time to take the plunge and hang your shingle on the World Wide Web. And what you're wondering is: How much is my personal bridge to the 21st century going to cost me?

Money isn't really the issue. If you already have an Internet connection or subscribe to an online service, you likely can put up a Web page for free or for only a few dollars. The problem is time. How many late nights and weekends will it take to craft a page worthy of the mobs you hope will rush to take a look?

That was the question I faced weeks ago. I'd been thinking about staking out some turf on the Web, but I

was put off by what seemed a daunting task: learning the Web's programming language, called HTML, or hypertext markup language. The name alone made my temples throb. My history with programming is gloomy. In the one course I took in college, my final project never ran properly; I've always figured the instructor passed me because he didn't want to see me again the following semester.

Now, however, it's possible to create a handsome Web page without programming in HTML. Software makers are selling "Web-authoring software" that allows you to create Web pages by starting with standard templates and

clicking on menu choices to customize them. It invisibly writes the underlying HTML code for you.

If even this sounds too ambitious, there are simpler alternatives. Some online services and Internet service providers will design a page for you or give you the tools to do it easily yourself. I sampled America Online's personal Web section, and was able to create a home page in 20 minutes. The drawback was that choices were limited and there isn't as much room for creativity.

The existence of Web-authoring software gave me confidence to give more complex Web publishing a try.

But first I had to answer an important question: Why? I want a Web site? The Web is littered with personal pages that are as interesting as looking at somebody else's family photo album. Entries typically include "My favorite musical groups," "My favorite Web sites," and red-eyed mug shots of the dog and kids.

SLOPES & LINKS. There are better reasons to create a Web site—starting and promoting a small business, or advertising professional services to potential clients. A Web page might help a search. It can be a place to share information with colleagues. Or it can be a place to have fun—to post a ranking of your favorite ski slopes or announce bold predictions about this year's Yankees.

I decided to use my Web site to promote a recent book of mine called *The Last Harvest: The Genetic Gamble that Threatens to Destroy American Agriculture*. The first step was to decide what information to include. A personal Web page, or Web site, is actually a series of linked files.

COMPUTERS

The new software lets you create Web pages from templates and click on menu choices to customize them

pages, all stored in a directory on a host computer. When you look at BUSINESS WEEK's site, for example (<http://www.businessweek.com>), the first thing you see is the BUSINESS WEEK Online logo and a menu of choices. That's the home page of the BUSINESS WEEK Web site. When you click on one of those menu choices, you go to a page on a second level. From there you can continue clicking through thousands of pages. But all I needed, for example, was an attractive open page—called the home page—and a few interesting secondary pages.

As a modest start, I designed a home page depicting *The Last Harvest* with two links—one to an excerpt from the book, and another to an online bookstore, where visitors dazzled by my page could purchase a copy immediately. I plan to add links to other Web sites concerned with food and the environment.

I will also ask others to add links to my Web site on their pages. That will lure visitors and increase the chance that my site will be found by Web search engines such as Yahoo! and AltaVista.

With the plan completed, I returned to Web-authoring software. To produce my pages, I sampled Microsoft Front Page 97 (\$149), Claris Home Page (\$99), and Netscape Composer (available at <http://home.netscape.com>), and soon on retail shelves for \$59). There are at least a dozen similar software packages, including others that can be downloaded without charge. The programs all allow you to do the same things: create and edit pages, import and manipulate graphics, and add links to other pages and to other sites on the Web.

Of the three programs I used, Microsoft Front Page was the most elaborate—meaning it allowed more options and was also a bit tougher than the others to learn. Claris Home Page was easy to use, and I preferred its image-editing software to Microsoft's. I used the preview version of Netscape Composer, part of Netscape Communicator. Its screen looks like a Netscape browser, so Netscape users will find it familiar and comfortable.

The manuals that came with the programs were not much use. I got help with Front Page from *Microsoft Front Page 97*, edited by Denise Tyler (Sams.net, \$39.99), one of the many available books. I also dis-

covered a useful primer called *A Beginner's Guide to HTML*, available free from the National Center for Supercomputing Applications at <http://www.ncsa.uiuc.edu/General/Internet/WWW/HTMLPrimer.html>. With my modest computer skills, it took about two weekends to wade through the software and manuals and create my first few Web pages. Those more computer-savvy than I might well be able to accomplish that in a single evening. Part of the trick is to make sure the links and bookmarks take you where they are supposed to take you. You can check that offline simply by calling up the pages in a Web browser such as Netscape Navigator or Microsoft Internet Explorer.

LESS IS MORE. If you use graphics, make sure they are small enough to load quickly. Try to limit the size of images, in kilobytes, so each page is 50K or less. On my home page, I included a small copy of the cover of the paperback edition of *The Last Harvest*. Many computer stores and graphic design

online. Many government sites offer free use of photos, maps, and charts.

Once you've checked out the links and graphics on your pages, it's time to "publish" them on the Web. I published my pages on a Web server run by the National Association of Science Writers, which makes space available to members for personal Web sites. Before you decide where to publish, check with organizations you belong to and with your employer—you might get space for free. I uploaded my pages using something called file transfer protocol, or FTP. To do that, I downloaded an FTP program from the Internet. It's called WS_FTP Limited Edition, and it's available from Ipswitch Inc. at <http://www.ipswitch.com>. After a bit of tinkering to get the program to work, I transferred my files to the science writers' computer, and my page was instantly accessible to anyone around the world. I was a published Web page author. I swelled with the pride I might have felt in college if only I'd been able to make that old program run.

Creating a personal Web site wasn't a snap, but it wasn't as difficult as I'd feared. It's more complicated than using the computer to do your taxes but less complicated than, say, learning a new spreadsheet program. If you'd like to take a look at my handiwork, you can find it at <http://www.nasw.org/users/praeburn/>. I plan to spruce up my pages in the coming months perhaps even by learning a bit of HTML. I am, after all, the author of a published Web page, thank you. Which puts me in league with thousands of other Web page developers sharing the hope that if we build it, they will come. A few of them, anyway. *Paul Raeburn*

Some Webspeak Worth Knowing

BOOKMARK A link to direct users to a specific place on your Web page.

FTP File transfer protocol. All you need to know is that you might need this to send your Web pages to a server.

GIF A common format to encode images for display on Web pages. Another is JPEG.

HTML This stands for hypertext markup language, which programmers use to create Web pages. Web-authoring software allows you to do the job without knowing HTML.

HYPERLINK OR LINK A pointer on a page that allows users to click their way to another page or destination.

JAVA A programming language used to do fancy things on Web pages.

URL A Web page address; it usually starts with "http://"

covered a useful primer called *A Beginner's Guide to HTML*, available free from the National Center for Supercomputing Applications at <http://www.ncsa.uiuc.edu/General/Internet/WWW/HTMLPrimer.html>.

With my modest computer skills, it took about two weekends to wade through the software and manuals and create my first few Web

shops can quickly and inexpensively scan book covers, photographs, and other illustrations to produce electronic images suitable for Web pages. Such images can be created in many different computer formats, but Web pages most often use only two of those formats: GIF and JPEG. The simplest way to get graphics for your Web page is to download images

HANDLE THIS TAX DODGE WITH CARE

With mom hooked up to a life-support system, her grown children had to act fast.

They stood to inherit millions of dollars, but unless they took immediate action, most of the money would go to Uncle Sam in the form of estate taxes. So the siblings did what hundreds of thousands of American families who fear the dreaded "death tax" are doing: They transferred their ailing mother's assets—real estate and securities—into a family limited partnership, or FLP, leading to a potential tax savings of around 48%. Two days after the partnership was created, the plug was pulled, and their mother died.

BLATANT CASE. Inappropriate? The Internal Revenue Service sure thinks so. The episode may sound like a bad TV-movie, but this real-life drama has caught the attention of the IRS, which in a March memo declared the partnership invalid. Tax experts say that it took such a blatant case

for the IRS to publicly denounce what it views as an increasingly widespread problem: the abusive use of FLPs to avoid estate taxes. Traditionally, such limited partnerships have been created to hold

SMART MONEY

real estate assets, or to operate family businesses. But lately, families with sophisticated legal counsel have figured out that FLPs can shelter even marketable securities from the full impact of estate taxes, says Kenneth P. Brier, a partner and tax attorney at Sherburne, Pow-

ers & Needham in Boston.

Now, tax attorneys across the country are worried that the IRS is planning a full-scale crackdown on all family limited partnerships, says Santa Clara University law professor Jerry A. Kasner. If so, the impact will be far-reaching, even affecting folks with less than \$1 million in assets who are using FLPs to protect assets from creditors or former spouses. If your

FLP is not properly structured, expect to find yourself in tax court. Done right, on the other hand, FLPs can be a valuable estate planning tool, offering more than just tax advantages.

Here's how they work: The donor, usually a parent, transfers the assets to the FLP and becomes the general partner, thus maintaining a controlling stake in the partnership. The spouse and/or children become limited partners and receive interests in the FLP through gifts. It's up to the general partner to determine whether any earned income is reinvested or distributed to the kids.

Since the limited partners have no control over the assets, they receive shares at a discounted value. A lawyer will recommend an appraiser who will determine what an

appropriate discount will be. Depending upon the type of assets, discounts will range from 25% to 60%, allowing the children to inherit more after estate taxes are paid than if the parent had died. In the Deener case, the senior partner at Deener, Gold & Stern in Hackensack, N.J.

HOARD PAPER. If you are currently using or considering creating an FLP, there are several ways to protect yourself from IRS scrutiny. First, make sure the partnership is well-drafted. Ask your attorney for a copy of the partnership agreement. The partnership agreement should clearly state your nontax reasons for creating it, such as protecting assets from future creditors or ex-spouses. Save any supporting documents that prove tax-avoidance was not the sole motive. Establish a separate bank account for the partnership and save all records.

More important, parents need to treat the children as real limited partners. "Make sure the children receive distributions that are proportionate to their share of the partnership," says Osvaldo Fiore, a principal of the Fiore Law Group in San Jose, Calif., which specializes in estate planning. The general partner must file IRS Form 1065.

You shouldn't skip a qualified business appraisal, either. If you should face an audit, such an appraisal will help you prove that the discounted value of the shares was reasonable. Even marketable securities must be appraised because the discount is based upon the value of partnership interests. Expect to pay from \$12,000 to \$15,000 in legal and appraisal fees. "The burden of proof is on the taxpayer," says Fiore. If you are not willing to invest the requisite time and money in setting up the partnership, don't be surprised if Uncle Sam comes along and pulls the plug. *Kerry Caplan*



Family Limited Partnerships: Keeping the IRS at Bay

GET A GOOD LAWYER Look for a tax or estate planning attorney who is experienced in drafting and defending partnership agreements. Call the American College of Trusts & Estates Fellows (310 398-1888) or the American Bar Association (312 988-5000) for referrals.

GET A QUALIFIED BUSINESS APPRAISAL

An appraiser will document how much you can discount the assets in the partnership—usually 25% to 60%.

PROVE IT'S A BUSINESS, NOT A TAX SCAM Spell out your nontax reasons for setting up an FLP in the partnership agreement. Save all pertinent correspondence between the family members and your financial, legal, and tax advisers.

KEEP A PAPER TRAIL Get a copy of the limited partnership certificate filed with the state from your attorney. Open a separate bank account for the partnership, saving all account statements, receipts, and accounting records.



IGHT SNEEZING WITHOUT SNOOZING

the more than 35 million hay fever sufferers in the U.S., sneezing is the cruelest symptom of all. Warm breezes from a tree and its pollen, by which way, making it a case of sneezing, wheezing, dripping noses. The good news is that after the Food & Drug Administration announced its plan to try and remove one drug from the market because of rare but potentially dangerous side effects, a bevy of other drugs is on hand to help most allergy sufferers. In fact, says Dr. Michael Welch, an allergist in San Diego, "there are more treatments available this year than ever before."

Hay fever (allergic rhinitis) is by far the most common allergic condition. When a sufferer

inhales pollen, grass, dust, or mold, his or her immune system gears up for a hostile invasion. The defense takes the form of a chemical cascade that results in the release of histamine and other substances which cause inflammation of the nose, eyes, and throat.

A decade ago, the only option for hay fever sufferers was to use antihistamines

that turned most people into zombies. When the nonsedating Seldane hit the market in the early 1980s, it quickly became a top-selling drug. Now, there are several similar drugs on the market with very few differences between them, says Dr. Andrea J. Apter, the allergy specialist at the University of Connecticut Health Center in Farmington, Conn. Apter contends that Seldane remains safe for most people, although there is a slight risk of serious heart problems if people take it with erythromycin, a common antibiotic, or with anti-fungal medications. Hoechst Marion Roussel, which manufactures Seldane, won approval last year to sell Allegra, a drug that appears to be as effective as Seldane without the side effects.

In addition to antihistamine pills, doctors are increasingly prescribing new-fangled nasal sprays. Steroid sprays work by preventing an immune response to allergens such as pollen or dust. There are now nearly half a dozen on the market, including Glaxo's Flonase and Schering-Plough's Vancenase. Since these sprays require two to four days to take effect, Welch advises patients seeking quick relief to try a prescription antihistamine nasal spray that can stop sneezing and relieve nasal itchiness within minutes.

For the many patients whose major symptoms are itchy, burning, or weepy eyes, doctors now have several

kinds of prescription drops in hand. Some solutions contain antihistamines, others the drug cromolyn. A new entry to the market contains both drugs.

Probably the most controversial area of treatment is immunotherapy or allergy shots. Doctors disagree sharply over whether or how well it works and how often such shots should be prescribed. Only about 25% of all allergy sufferers actually need immunotherapy, says Welch.

PILLOW FLIGHT. Before getting shots, Dr. B. Robert Feldman, an allergy specialist at Columbia Presbyterian Medical Center in Manhattan, recommends getting rid of environmental triggers like a down pillow or family cat. If these steps don't help, medication might. But if a patient has battled serious allergies for years despite drug therapy, immunotherapy may be necessary.

Treatment involves giving a person gradually larger amounts of the allergy-inducing substance over a period of three to five years. That helps the immune system get used to allergens. The risk is that too much dust or mold can set off a serious allergic reaction called anaphylaxis. Some companies are working on shots that use just one key part of an allergen instead of the whole molecule. Studies are also being conducted on oral and nasally administered immunotherapy.

In years to come, allergy medication will evolve even further. One promising class of drugs approved last year for treating asthma—called leukotriene inhibitors—blocks inflammation. Studies are being done to determine their effectiveness in treating allergies. Boston-based ImmuLogic is testing a cat dander vaccine that could prevent feline allergies. A vaccine for ragweed is also in the works. Indeed, for the millions of hankie hoarders, these developments are nothing to sneeze at. *Naomi Freundlich*

Stop the Sniffles

NONSEDATING ANTIHISTAMINES

With Seldane in regulatory limbo, these drugs may relieve symptoms without turning you into a zombie.

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Sprays and drops are gaining in popularity for treating hay fever at the source: Your nose.

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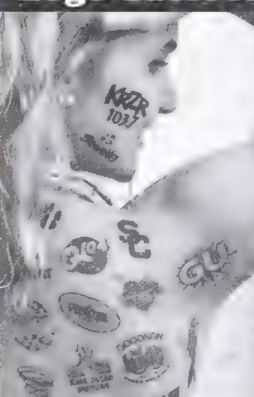
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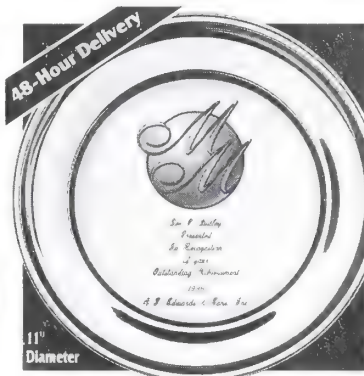
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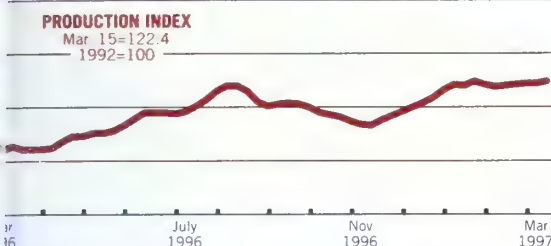
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Business Week Index

PRODUCTION INDEX

Change from last week: 0.2%
Change from last year: 5.2%



The production index has been revised back to January, 1992, to reflect the mark revisions to the Federal Reserve's index of industrial production, component weights, and new seasonal factors. Historical data is available from BUSINESS WEEK. In the week ended Mar. 15, the index rose 0.2%. Before calculation of the four-week moving average, the index rose 2.7, from 122.1, on gains in the seasonally adjusted output of trucks and rail-freight traffic.

Production index copyright 1997 by The McGraw-Hill Companies

LEADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STOCK PRICES (3/21) S&P 500	784.10	793.17	20.5
CORPORATE BOND YIELD, Aaa (3/21)	7.61%	7.42%	2.7
INDUSTRIAL MATERIALS PRICES (3/21)	107.6	108.3	-2.1
BUSINESS FAILURES (3/14)	NA	NA	NA
REAL ESTATE LOANS (3/12) billions	NA	NA	NA
VEHICLE SUPPLY, M2 (3/10) billions	\$3,875.0	\$3,870.6r	4.5
INDUSTRIAL CLAIMS, UNEMPLOYMENT (3/15) thous.	312	309	-18.3

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1990=100), Dun & Street (failures of large companies), Federal Reserve, Labor Dept.

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
FEDERAL FUNDS (3/25)	5.57%	5.42%	5.23%
COMMERCIAL PAPER (3/26) 3-month	5.70	5.53	5.37
CERTIFICATES OF DEPOSIT (3/26) 3-month	5.66	5.52	5.34
FIXED RATE MORTGAGE (3/21) 30-year	8.09	7.98	8.05
ADJUSTABLE MORTGAGE (3/21) one-year	5.85	5.86	5.77
LIBOR (3/21)	8.25-8.50	8.25	8.25

Sources: Federal Reserve, HSH Associates, Bloomberg Financial Markets

1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

PERSONAL INCOME

Friday, Mar. 31, 8:30 a.m. EST ▶ Personal income likely rose a strong 0.7% in February while consumer spending increased a 0.5%. Those are the median forecasts from economists surveyed by MMS International of The McGraw-Hill Companies. In January, income rose 0.3% and spending up 0.7%, but the upward revision to January's retail sales suggest that January's spending will be adjusted higher.

CONSUMER SURVEY

Friday, Apr. 1, 10 a.m. EST ▶ The National Association of Purchasing Management's index edged up to 53.5% in March, from 53.1% in February, says the MMS survey.

Economists will look closely at the NAPM's component covering vendor deliveries. If companies are stretching out the time in which goods are shipped, it would indicate that price pressures are building.

LEADING INDICATORS

Tuesday, Apr. 1, 10 a.m. EST ▶ The Conference Board's index of leading indicators probably rose 0.4% in February, after rising 0.3% in January. The index has not fallen since January, 1996.

CONSTRUCTION SPENDING

Tuesday, Apr. 1, 10 a.m. EST ▶ The MMS survey forecasts that building outlays rose 0.7% in February, on top of a 0.4% advance in

January. The February gain is suggested by the 12.2% jump in housing starts.

FACTORY INVENTORIES

Wednesday, Apr. 2, 10 a.m. EST ▶ Factory inventories were probably increased 0.2% in February, after rising just 0.1% in January.

EMPLOYMENT

Friday, Apr. 4, 8:30 a.m. EST ▶ The MMS median forecast expects that nonfarm payrolls added 198,000 jobs in March, after 339,000 were created in February. The unemployment rate was likely unchanged at 5.3%. Average hourly earnings are expected to have risen 0.3% in March, after increasing 0.2% in February.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (3/22) thous. of net tons	2,120	2,102#	1.8
AUTOS (3/22) units	127,423	126,686r#	60.1
TRUCKS (3/22) units	130,141	139,360r#	43.6
ELECTRIC POWER (3/22) millions of kilowatt-hrs.	59,339	59,387#	2.5
CRUDE-OIL REFINING (3/22) thous. of bbl./day	14,079	13,715#	1.8
COAL (3/15) thous. of net tons	20,800#	20,443	-2.4
LUMBER (3/15) millions of ft.	509.0#	510.6	13.8
RAIL FREIGHT (3/15) billions of ton-miles	27.4#	26.9	1.9

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPAI, SFPAZ, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (3/26) \$/troy oz.	346.050	349.100	-13.6
STEEL SCRAP (3/21) #1 heavy, \$/ton	136.50	136.50	-1.8
COPPER (3/21) ¢/lb.	117.7	117.0	-2.7
ALUMINUM (3/21) ¢/lb.	80.0	80.5	4.6
COTTON (3/22) strict low middling 1-1/16 in., ¢/lb.	70.63	72.74	-14.1
OIL (3/25) \$/bbl.	20.77	21.77	-6.7
CRB FOODSTUFFS (3/25) 1967=100	245.28	243.36	4.1
CRB RAW INDUSTRIALS (3/25) 1967=100	339.19	339.92	2.3

Sources: London Wednesday final setting, Chicago market, Metals Week, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (3/26)	124.23	122.72	106.61
GERMAN MARK (3/26)	1.69	1.68	1.49
BRITISH POUND (3/26)	1.63	1.60	1.52
FRENCH FRANC (3/26)	5.70	5.67	5.07
ITALIAN LIRA (3/26)	1685.5	1687.8	1579.5
CANADIAN DOLLAR (3/26)	1.37	1.38	1.36
MEXICAN PESO (3/26) ³	7.893	7.925	7.540
TRADE-WEIGHTED DOLLAR INDEX (3/26)	105.1	104.8	99.6

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar via J.P. Morgan

1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

This Week, Online

Business Week presents frequent live conferences and chats on America Online—your opportunity to ask questions about features from the magazine.

Sunday

BW's Paul Raeburn is one of the thousands who have created their own Web page—and you can do it, too. He will be online with Ginny Hudak-David, author of *A Beginner's Guide to HTML*. **Mar. 30**

9 p.m. EST in the Globe

Monday

Learn the bare essentials of marketing your business from Robert Grede, author of *Naked Marketing*. **Mar. 31**

8 p.m. EST in the BW Enterprise Chat Room

Thursday

Look north of the border for your global MBA—chat with U.S. students from the Ivey School at Western Ontario University. **Apr. 3**

8 p.m. EST in the BW Online Chat Room

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.

BusinessWeek ONLINE

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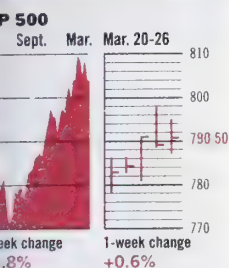
Business Week (ISSN 0007-7135) published weekly, except for one issue in January, by The McGraw-Hill Companies, Inc., Executive, Editor Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$49.95/year; Canada, Cdn. \$69.95/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08520.

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Investment Figures of the Week

STOCKS



MENTARY

ended week in the financial
ets. On Mar. 25, the Fed-
Reserve raised the
night bank lending rate
quarter of a point, to
, and fixed-income in-
ers were worried that other
s may be in the offing.
s fell on the move. But
stock market's reaction was
The Dow Jones industrial
ge fell 29 points, to 6876,
the decision was an-
ced. The Dow had climbed
points on Mar. 24, as in-
rs speculated that any
hike would be limited.

U.S. MARKETS

	Latest	% change Week	% change Year
Dow Jones Industrials	6880.7	0.0	21.3
NASDAQ Combined Composite	1269.1	1.6	16.6
S&P MidCap 400	261.4	1.0	14.2
S&P SmallCap 600	141.2	0.1	12.3
S&P SuperComposite 1500	169.2	0.6	20.0

SECTORS

	Latest	% change Week	% change Year
Bloomberg Information Age	237.0	3.2	20.4
S&P Financials	90.8	0.0	35.3
S&P Utilities	193.4	0.3	-0.5
PSE Technology	251.5	4.3	26.4

FOREIGN MARKETS

	Latest	% change Week	% change Year
London (FT-SE 100)	4301.5	-0.7	17.5
Frankfurt (DAX)	3418.1	3.1	36.8
Tokyo (NIKKEI 225)	18,472.5	-0.1	-12.1
Hong Kong (Hang Seng)	12,776.4	1.0	16.3
Toronto (TSE 300)	6122.8	0.6	22.8
Mexico City (IPC)	3842.9	-0.6	24.2

FUNDAMENTALS

	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.86%	1.86%	2.15%
S&P 500 P/E Ratio (Last 12 mos.)	20.7	20.8	19.2
S&P 500 P/E Ratio (Next 12 mos.)*	16.6	16.6	NA
First Call Earnings Revision*	-0.99%	-1.08%	NA

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 200-day average	717.9	715.1	Positive
Stocks above 200-day average	64.0%	67.0%	Neutral
Options: Put/call ratio	0.69	0.67	Neutral
Insiders: Vickers Sell/buy ratio	1.94	1.79	Positive

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS

	Last month %	Last 12 months %
Oil & Gas Drilling	16.8	Semiconductors 83.5
Trucking	13.7	Oil & Gas Drilling 75.6
Oil-Well Equip. & Svcs.	10.4	Savings & Loans 59.0
Newspaper Publishing	8.0	Shoes 53.4
Restaurants	7.8	Invest. Banking/Bkrge. 42.6

WORST-PERFORMING GROUPS

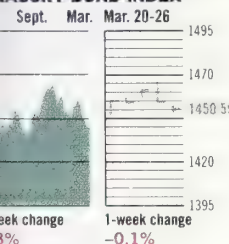
	Last month %	Last 12 months %
Photography/Imaging	-14.0	Machine Tools -28.3
Engineering & Constr.	-12.5	Gold Mining -26.0
Shoes	-11.1	Engineering & Constr. -22.0
Tobacco	-9.7	Broadcasting -14.2
Hospital Management	-8.7	Steel -12.9

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness	Price	1-month change
IBM	135 7/8	-11
General Electric	105	-1 1/4
Texas Instruments	77 1/4	-3 3/8
Compaq Computer	77	-4 3/4
Citicorp	115 3/4	-6 1/8
Procter & Gamble	120 1/4	-1 1/2
Decline ahead? Stocks with most significant selling on price strength	Price	1-month change
Boeing	105 5/8	1 1/2
Netscape Communications	32 3/4	1 3/4
Altera	47 1/2	1 1/2
PacificCare Health Systems	85	2 1/8
McDonald's	47 1/2	2 3/8
L.M. Ericsson-ADR	33 3/4	1 1/2

INTEREST RATES

TREASURY BOND INDEX



Bloomberg Financial Markets

KEY RATES

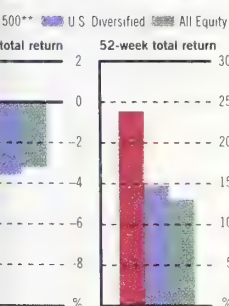
	Latest week %	Week ago %	Year ago %
MONEY MARKET FUNDS	4.96	4.96	4.85
90-DAY TREASURY BILLS	5.34	5.29	5.13
6-MONTH BANK CDS	5.07	5.04	4.81
1-YEAR TREASURY BILLS	5.87	5.79	5.38
10-YEAR TREASURY NOTES	6.78	6.74	6.25
30-YEAR TREASURY BONDS	6.98	6.99	6.59
LONG-TERM AA INDUSTRIALS	7.47	7.47	7.16
LONG-TERM BBB INDUSTRIALS	7.81	7.81	7.57
LONG-TERM AA TELEPHONES	7.67	7.67	7.42

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	Last week	30-yr. bond Latest week	Last week
GENERAL OBLIGATIONS	4.99%	4.94%	5.59%	5.54%
PERCENT OF TREASURIES	73.68	73.33	80.13	79.34
TAXABLE EQUIVALENT	7.23	7.16	8.10	8.03
INSURED REVENUE BONDS	5.14	5.07	5.86	5.79
PERCENT OF TREASURIES	75.89	75.26	84.00	82.92
TAXABLE EQUIVALENT	7.45	7.35	8.49	8.39

MUTUAL FUNDS



EQUITY FUNDS

Leaders	4-week total return	%	Laggards	4-week total return	%
American Heritage	11.5		Steadman American Ind.	-16.3	
EV Trad. Greater India	8.7		Calvert Strat. Growth A	-15.6	
Pioneer India B	8.0		IAI Emerging Growth	-14.7	
Prudent Bear	5.5		Am.Cent.-20th C. Giftrust	-14.5	
Fidelity Sel. Energy Serv.	5.4		Steadman Associated	-14.5	
Leaders	52-week total return	%	Laggards	52-week total return	%
Vontobel Eastern Europ. Eq.	55.4		Steadman Technology Grth.	-41.1	
Morgan Stan. Inst. Lat. Am. A	50.8		United Svcs. Gold Shares	-40.5	
State St. Res. Glob. Res. A	50.1		Matthews Korea	-36.9	
Morgan Stanley Latin Amer. A	49.4		DFA Japanese Small Co.	-35.0	
Delaware Pooled Real Estate	48.5		Fidelity Japan Small Co.	-33.2	

EQUITY FUND CATEGORIES

Leaders	4-week total return	%	Laggards	4-week total return	%
Real Estate	2.3		Technology	-9.2	
Unaligned	-0.6		Small-cap Growth	-7.7	
Natural Resources	-0.8		Precious Metals	-7.2	
Europe	-1.3		Mid-cap Growth	-5.5	
Utilities	-2.0		Communications	-5.5	
Leaders	52-week total return	%	Laggards	52-week total return	%
Real Estate	35.7		Japan	-16.8	
Financial	32.7		Precious Metals	-15.4	
Latin America	32.3		Diversified Pacific/Asia	-3.2	
Europe	19.8		Pacific/Asia ex-Japan	0.1	
Large-cap Blend	19.7		Small-cap Growth	0.2	

are as of market close Wednesday, Mar. 26, 1997, unless otherwise indicated. Industry include S&P 500 companies only. Fundamentals, technical indicators, Bloomberg mon-

ey flow analysis, and mutual fund returns are as of Mar. 25. For a more detailed explanation, write to us or E-mail figures@businessweek.com NA=Not available **Vanguard Index 500 Fund

CONGRESS AND BIG TOBACCO NEED TO DEAL

The endgame for the tobacco industry is beginning. The startling confession from Liggett Group Inc. that, yes, tobacco is addictive and causes cancer and heart disease confirms what the public already believes. That Liggett intentionally marketed cigarettes to 14-year-olds, to hook them on nicotine years before the kids could legally buy them, is especially damning—and loathsome.

The settlement between Liggett and the attorneys general of 22 states provides an opening for a single, encompassing deal between Congress and the major tobacco companies. The cost of litigation for the tobacco companies already is approaching \$1 billion a year. States are hiking taxes, launching antismoking ad campaigns, and raising the legal age for tobacco purchases. Institutional investors are bailing out of tobacco-company stocks. Meanwhile, the cost of treating tobacco-related disease is in the tens of billions of dollars annually—which is precisely why states are suing to recover their Medicaid expenses. It is time to negotiate.

The rough shape of a compromise settlement is coming into view. The tobacco industry wants to cap its current liabilities and get immunity from future ones. Congress can offer to limit exposure to new claims. There is precedent for this kind of legislation. The 1986 National Childhood Vaccine Act set up a federally mandated compensation program and limited lawsuits against vaccine manufacturers who, in turn, agreed to continue making vaccine. The government absolved them of future liability for the greater good of public health. The 1969 Coal Mine Health & Safety Act works in a similar manner.

The greater good of public health is served by a comprehensive tobacco deal, as well. In return for receiving limited

liability, tobacco companies would have to create a massive multibillion dollar fund for settling claims. In addition, they also would have to agree to stop peddling nicotine to kids. Any comprehensive settlement must be based on the regulation of marketing, not just regulation of the drug. Eliminating advertising to children is essential to shrinking the nicotine-addicted population, saving lives, and lowering health-care costs for the nation. In fact, the deal also should include a tax hike on cigarettes to finance antismoking efforts.

Finally, the same restrictions on marketing tobacco to American kids should apply to Chinese and Russian children. The U.S. government, of course, can't enforce its own laws overseas. Asian, European, and Latin American governments have the primary responsibility for protecting the health of their own citizens. But Washington—which is quick to criticize other countries over human rights, labor practices, and the environment—cannot indulge in hypocrisy. It should jawbone tobacco companies to act responsibly overseas.

As the current craze for cigars shows, many adults freely choose immediate enjoyment over long-term health risks. That is their individual choice, and it should be preserved. But that doesn't mean the addictive nature of nicotine and the health dangers should be concealed from consumers. It does not mean that predatory practices to entrap youngsters should be allowed. A single settlement of this scope is unprecedented. But battling in dozens of courtrooms and wasting billions of dollars doesn't make much sense for shareholders or the public. It will be difficult for tobacco-industry executives who sat in Congress and swore that cigarettes were not addictive to now negotiate with the same legislators. But the alternative is much worse.

HIT THE GAS, DETROIT. JAPAN IS BACK

Detroit likes to think that the recent success of Japanese auto makers in the U.S. is all due to the weak yen. Dream on. No doubt the relatively cheap yen vis-à-vis the dollar is helping. But the harsh truth is that a good deal of the gains in market share by the Japanese come from exciting new models and lower prices generated by painful cost-cutting. The unexpected benefit from the yen is just gravy.

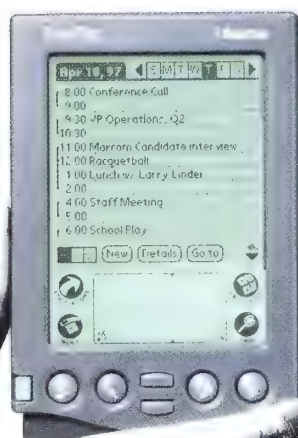
Take Toyota Motor Corp. In 1997, its U.S. market share has zoomed to 8.6%, up 2% from last year, powered by hot sales of Camry, Corollas, the RAV4 and 4Runner sport-utes, and the redesigned, entry-level Lexus ES 300. When the yen soared in the late 1980s, making its cars expensive overseas, Toyota undertook to remake itself so that it was profitable at 80 yen to 90 yen to the dollar. At 123, the frugality is paying off, and profits are soaring (page 104).

Detroit still is struggling to master that frugality. When the Japanese retreated from making over-engineered cars in

the early '90s and began focusing on affordability, Detroit struggled to match those moves. The result? The Big Three are now forced to offer cash rebates and subsidized leases on many cars to compete—slashing into profit margins. Detroit has another problem. Truck-love. Detroit has obsessed over sport-ute vehicles, minivans, and pickup trucks—and the profits these gas-guzzlers generate—to the detriment of cars. It assumed that consumer demand for sport-utes would grow for years, but demand is showing signs of leveling off, and the Japanese are piling into the market.

Toyota's new president, Hiroshi Okuda, is less worried about U.S.-Japan trade tensions than gaining market share. There even is talk of Toyota taking up to 15% of the global auto market, up from its current 9.5% share. With capacity already glutted, Okuda can reach his targets only by taking market share away from competitors. He intends to do just that. Detroit knows what it has to do. Just do it.

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The
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Ted Forstmann's
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GULFSTREAM

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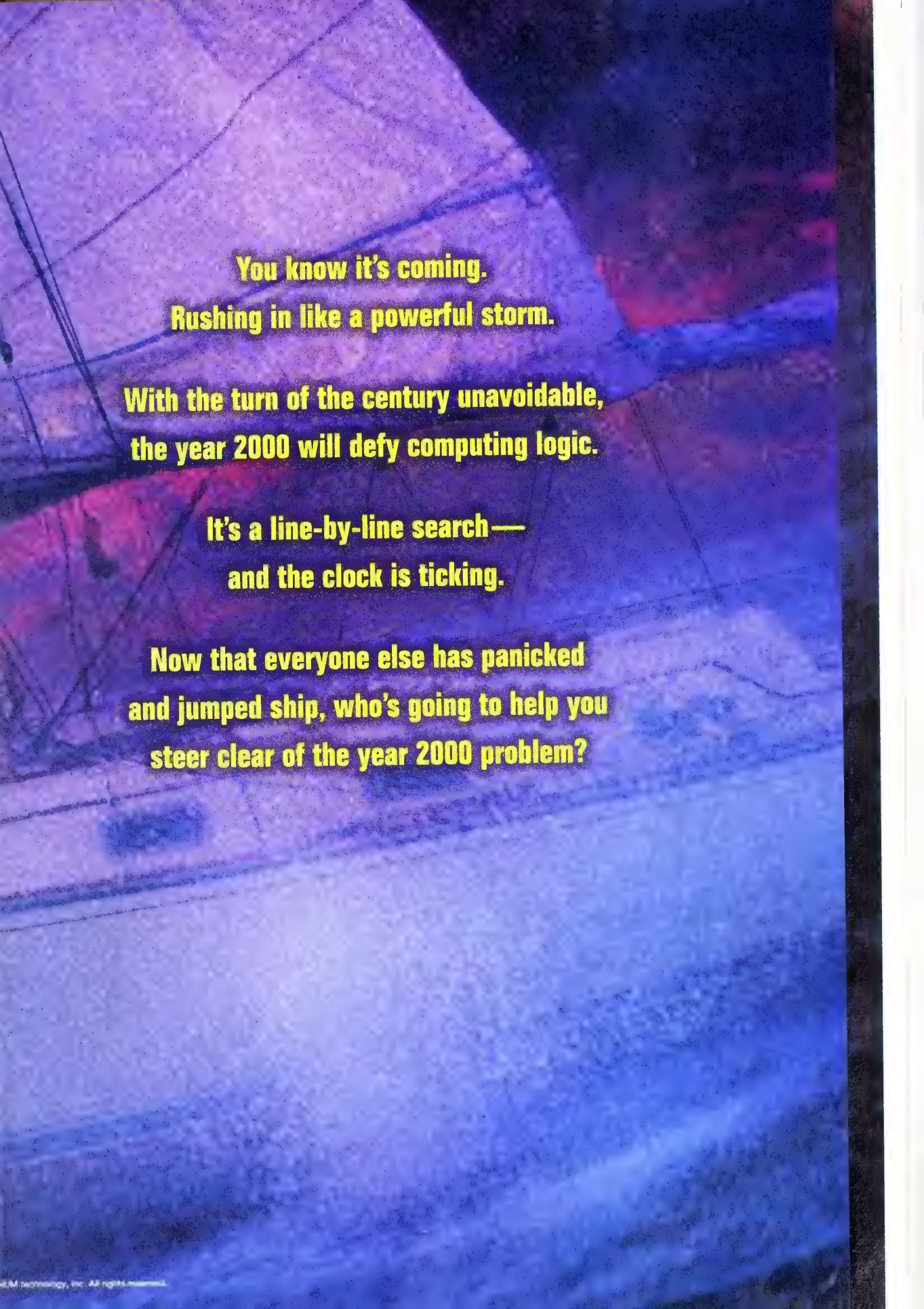
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BusinessWeek

APRIL 14, 1997



COVER STORY

GULFSTREAM'S PILOT Acquiring the jetmaker was just another deal to Ted Forstmann—until it nearly went bankrupt page 64

Cover Story

64 GULFSTREAM'S PILOT

Wall Street buyout firm Forstmann Little dozed as Gulfstream, the once-high-flying corporate jetmaker, slipped into a steep descent. Here's the inside story of how Ted Forstmann seized the controls, reaped record profits, and launched a hot new plane. Now, can Forstmann convince the Street that Gulfstream will keep soaring?

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A political football called trade
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BUSINESS WEEK ONLINE: Internet: www.businessweek.com America Online: Keyword: BW

Up Front

EDITED BY LARRY LIGHT

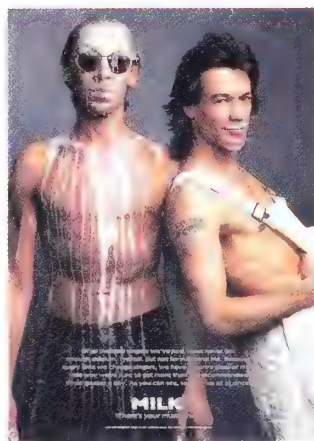
MAD AVE

MILK MUSTACHES DON'T TICKLE FOLKS

ALL THOSE MUSTACHES AREN'T doing much for milk consumption. Despite two high-profile ad campaigns costing \$300 million, the average American's milk consumption continues to drop. Last year marked the seventh straight annual decline. It's part of a 25-year trend in which per capita sales fell by 15%, to just over 24 gallons.

Milk processors are in the midst of a four-year campaign by Bozell Worldwide featuring milk-mustached celebrities—most recently rockers Alex and Eddie Van Halen, with Alex doing a total-immersion version. Dairy farmers are running their own off-beat ads, entitled "Got Milk?"

The industry says that at least the decline has slowed. In 1996, the campaign's second year, the drop was 0.29%, an improvement over 1995's



NO HELP: *The Van Halens*

0.86% slump. Trouble is, the dip in 1994, before the ads even started, was 0.24%, almost the same as 1996's. Fixing the problem, says Kurt Graetzer, executive director of the Milk Processor Education Program, will "take some time." But there is a drop or two of good news, though: Skim milk (one-sixth of the market) was up 5% last year. *David Leonhardt*



SHOW BIZ

AN OPENING CLOSET SPOOKS CHRYSLER

WILL GAY PLAY? NOT ON *Ellen*—at least as far as Chrysler is concerned. On Apr. 30, the lead character on the ABC sitcom, played by comedian Ellen DeGeneres, will "come out" as a lesbian. A spokesman says Chrysler, a regular *Ellen* advertiser, won't appear Apr. 30 because the "issue is so divisive." Gay Chrysler employees are planning protests at dealer-

DeGENERES: Coming out

ships over this decision. The Reverend Jerry Falwell has been calling for moves such as Chrysler's. He wrote to *Ellen* advertisers warning of Moral Majority retaliation if they don't comply. Sponsors General Motors and Johnson & Johnson won't appear, saying they never planned any Apr. 30 ads. All three companies say Falwell didn't influence them.

A source close to the show says the episode is a sellout, with some 30-second spots going for premium rates, as much as 20% over *Ellen*'s usual \$170,000. ABC, however, won't give out a list of ads. Hollywood types expect the episode, with Oprah Winfrey as *Ellen*'s shrink and Laura Dern as her love interest, to bag big ratings. *Ron Grover*

TALK SHOW "These individuals believed that Web Hubbell had done nothing wrong and was involved essentially in an internal billing dispute with his former law partners."

—White House spokesman Lanny Davis, on job help Clinton aides gave Hubbell, who was mired in the Whitewater probe

THE FUND FRONT

THE INDEX MANAGERS' DIRTY LITTLE SECRETS

ON THE SURFACE, ALL STOCK index funds should have identical total returns. But they don't because their expenses vary. So, go for the fund with the lowest expenses (table).

For portfolio managers, index funds are almost no-brainers. They don't need a corps of experts to vet a stock, deciding whether to invest. They merely buy shares in every company in an index—the most popular being the Standard & Poor's 500—or a portion of the stocks, to mirror the overall index. For these so-called "passive funds," expense ratios (the percent of costs to assets) generally range from 0.2% to 0.6%. The average for actively managed funds is 1.3%.

Since many index funds only began in the past few years, the high-cost ones usu-

ally justify themselves saying there was a significant startup expense. Prudential Securities says its S&P Index Fund started at 0.6% in 1992, but now that assets are at \$500 million, it lowered that to 0.50%. Also, some index managers

How S&P 500 Index Funds Vary

	EXPENSES AS % OF ASSETS	TOTAL RETURN
CALIFORNIA INVESTMENT	0.20%	22.3
VANGUARD	0.20	22.3
BT INVESTMENT EQUITY	0.25	22.2
FIDELITY MARKET	0.45	21.9
DREYFUS	0.50	21.8
PRUDENTIAL STOCK INDEX Z	0.50	21.5

12 Months through Mar. 27, 1997

DATA: MORNINGSTAR

admit privately that high expenses exist because the funds feel they can get away with it. "Investors usually don't think to compare expenses," says a manager of a high-expense fund. "They think we're all the same."

DIALING FOR DEALS

BIG STEPS FOR A BABY BELL

AMERITECH IS HITTING THE redial button. And this time it looks as if its plans to offer long-distance service in Michigan will go through. In January, Ameritech was the first Baby Bell to try moving into long-distance, but the Federal Communications Commission pushed it to withdraw.

The problem? The Chicago company's January application mistakenly stated the Michigan Public Service Commission approved AT&T's using parts of Ameritech's system to offer

limited calling in Michigan. Competition in local calling is required before the FCC can let the Baby Bells into long-distance.

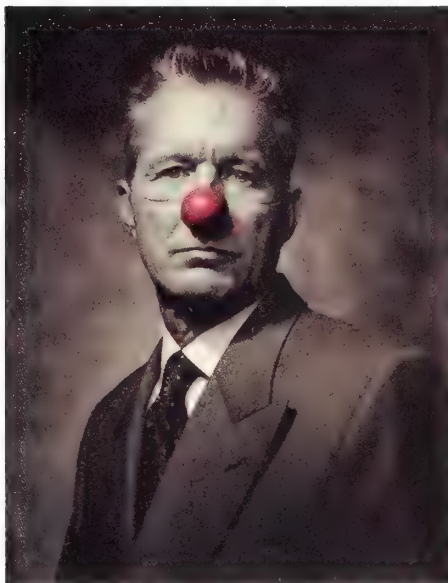
Now, the Michigan regulators are likely to O.K. the AT&T deal by Apr. 7. Says Ameritech's aggressive

chief, Richard Notabaert: "We're ready to go." One Michigan act: Ameritech will have a strong case with the FCC. AT&T, under another pact with Ameritech, has started offering local service in Grand Rapids. And startup LCI International is testing entry into four Michigan markets. Ameritech hopes for the feds' blessing by mid-summer. *Peter Elstrom*



TESTING... *Michigan*

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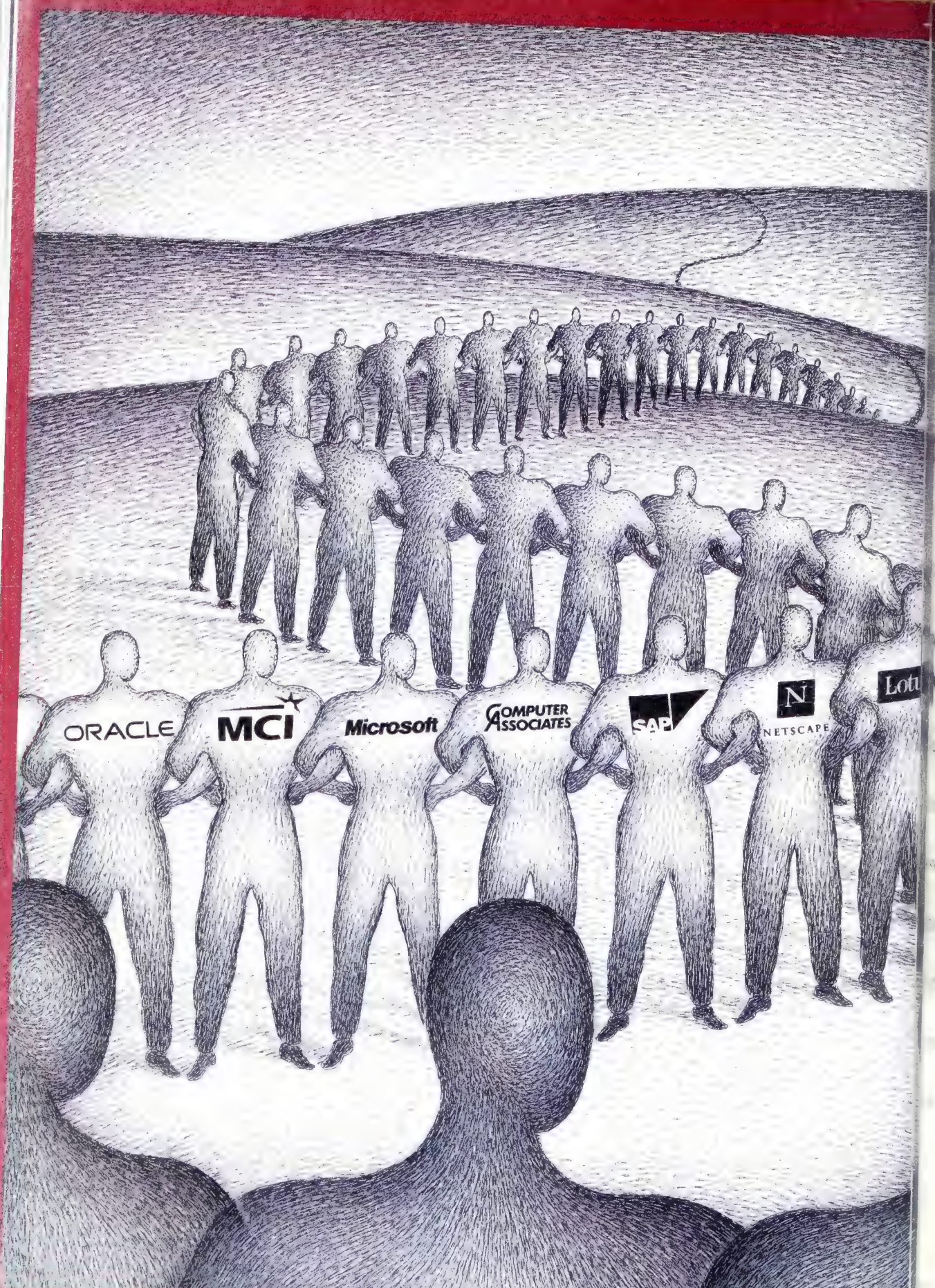
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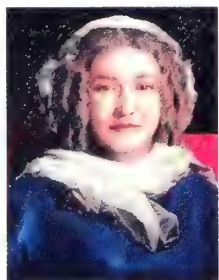
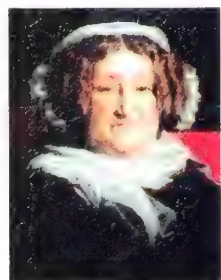


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Up Front

REALITY BYTES

A FACE TO LAUNCH 1,000 TOASTS



LUCAS' MAKEOVER: Before and after

A FRENCH CHAMPAGNE MAKER has enlisted George Lucas' visual-effects wizardry to juice up its appeal. Executives at Champagne Veuve Clicquot Ponsardin felt the picture of the aged Widow Clicquot, which is on the metal cap over each cork, could be made more intriguing. So the outfit that conjured up *Jurassic Park*'s dinosaurs used computers to create a virtual likeness of the grande dame as she might have looked at 27, in 1805, when her husband died.

Lucas' Industrial Light &

Magic (ILM) is mainly focused on movies, with forays into TV ads—most notably, Nissan's bombing pigeons. Long used to churning out fantastic images, the Lucas crew found the old portrait "an intriguing challenge," says Patty Blau, an ILM veep.

ILM artists combined Nicole-Barbe Clicquot's image with photos of two real-life young women who, a computer analysis showed, looked like her. The result will soon appear in promotional material. Thus far, the brand isn't replacing the old version on the cork cap. Veuve Clicquot, the U.S.'s No. 2 champagne at 13% market share—second to Moët & Chandon (48%)—hopes Madame's rejuvenation will broaden its appeal.

Lisa Sanders

RANK AND FILE

THE STRAWBERRIES OF WRATH?

IT'S LABOR ACTIVISM, 1990s-style. The AFL-CIO is gearing up for a big march Apr. 13 to support unionizing 20,000 workers in the strawberry industry. President John Sweeney has cobbled together a liberal coalition of church, feminist, and community groups for the march in Watsonville, Calif.—plus a bevy of Hollywood celebrities such as Danny Glover and Linda Ronstadt.

The campaign is part of Sweeney's plan to revive or-

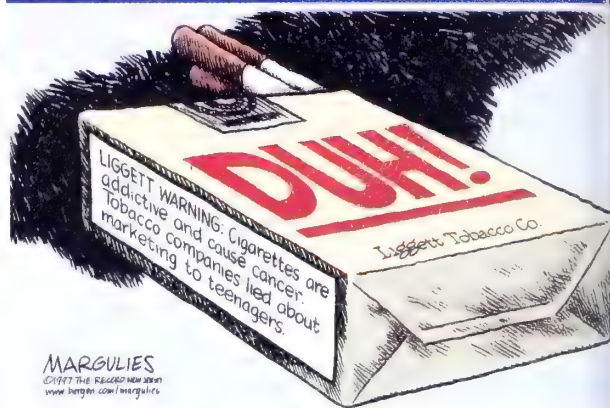


PICKING: Union drive

ganized labor, the first time the AFL-CIO has helped an individual union in direct organizing. He chose the United Farm Workers, an AFL-CIO affiliate, as a launching pad because of its liberal cachet under Cesar Chavez in the 1960s. The union is holding rallies outside supermarkets, which sell the most strawberries, in hopes they will urge growers to stop resisting organizing drives. The union says strawberry workers earn just \$8,500 yearly, some 20% less, after inflation, than a decade ago. The industry says farmers pay a living wage.

Aaron Bernstein

DRAWN & QUARTERED



MARGULIES
COPPETT THIS: RAISED NEW ADVERTISING HEIGHTS FOR MARGULIES

AFTERLIVES

YOU SHOULDN'T HAVE JUNKED THAT BIKE

OLD BIKES DON'T RUST AWAY. Not if they're in the Schwinn family's collection. They go on the block. More than 160 old bicycles will be auctioned off in Chicago on Apr. 6, a premier event for cycle enthusiasts.

Some are Schwinns, such as the 1970 Sting Ray Orange Krate and the 1935 Deluxe Excelsior. Some are from other manufacturers, including the 1889 Rudge Tandem Tricycle and the futuristic-looking 1960 Bowden Spacelander, which was a market flop on the order of the Edsel. Since vintage bikes are hot investments lately, collectors expect to pay top dollar. The Spacelander, for instance, is listed at



'60 SPACELANDER may fetch \$10

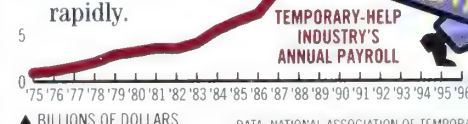
The bicycles were in a Chicago museum that recently folded, he says, and the family didn't want them hidden away in storage.

Roy Furchgo

THE BIG PICTURE

TEMP PAYCHECKS: \$30 BILLION AND COUNTING

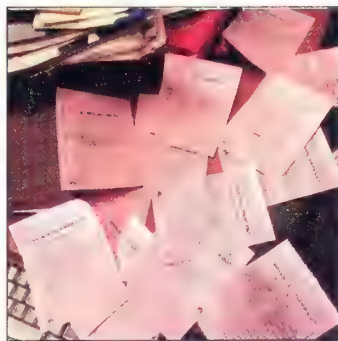
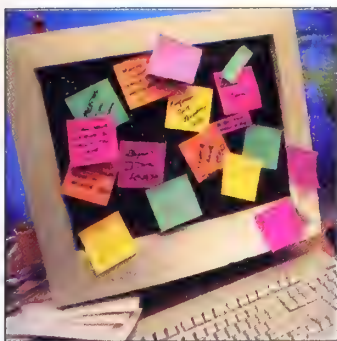
With a big boost from the corporate downsizing phenomenon, payrolls for temporary workers surpassed \$30 billion last year. The biggest group of temps (one-third) is clerical, but technical and professional temps are increasing rapidly.



▲ BILLIONS OF DOLLARS

DATA: NATIONAL ASSOCIATION OF TEMPORARY & STAFFING SERVICES





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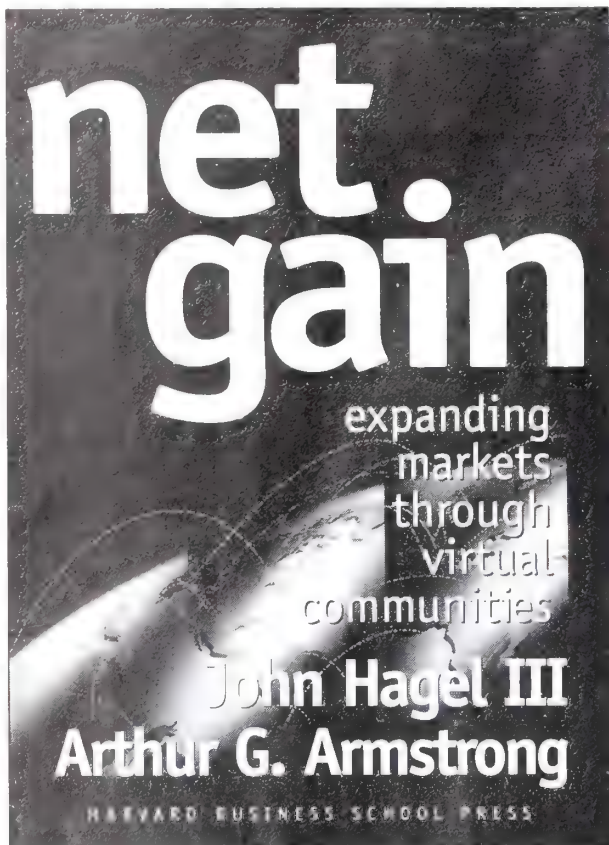
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Readers Report

CHANGE SOCIAL SECURITY TO MAKE BOOMERS WORK LONGER

In "The coming job bottleneck" (Workplace, Mar. 24), your discussion of the "graybeard ceiling"—as presented in Hudson Institute's forthcoming book, *Workforce 2020—Work and Workers in the 21st Century*—was excellent and generally to the point. We would like to clarify one statement, however. *Workforce 2020* will nowhere suggest reinforcing seniors' entitlements to make retirement more attractive. On the contrary, we suggest changing Social Security to encourage seniors to work.

Carol D'Amico
Senior Fellow
Hudson Institute
Indianapolis

AFTER ALL THESE YEARS, S&Ls ARE STILL HEALTHY

In "Out of the S&L ashes" (Finance, Mar. 24), you say the thrift industry has been in rapid decline since the 1980s. That is not true. By virtually any economic measure, today's savings and loan associations are healthier, more profitable, and better capitalized than ever. The industry has consolidated considerably in terms of numbers of institutions since the 1980s, as have all types of financial institutions. But those that remain are well managed, well capitalized, innovative institutions that are serving their customers and their communities across the nation.

Paul A. Schosberg
President
America's Community Bankers
Washington

FOR THE SECOND TIME, THERE'S NO MOB CONTROL OF SOVEREIGN

As spokesperson for Sovereign Equity Management Corporation, I am once again amazed by the irresponsible and inaccurate journalism exhibited in your article "The Mob on Wall Street: Why you can't see it" (Finance, Mar. 24).

Gary Weiss has again relied upon un-

CORRECTIONS & CLARIFICATIONS

"Innovations" (Developments to Watch, Mar. 24) incorrectly described a study on hearing that could begin next year. The study will examine a method for protecting inner-ear hair cells from damage due to a cancer drug.

"Sex, lies, and home improvements?" (News: Analysis & Commentary, Mar. 31) said Alan Steiman's Landscape Inc. billed Astra USA Inc. for landscaping at the home of former Astra USA CEO Lars Bildman. Steiman's office manager said the bills were sent to a general contractor.

In "Making the most of a mountain of data," one of the stories on "The BUSINESS WEEK 50" (Cover, Mar. 24), Merck & Co. was said to rank 26th. As noted elsewhere in the stories, it ranked 6th. And in a glossary with the Industry Rankings tables, the definition of "return on invested capital" should have been: the net income available for shareholders as a percent of debt and equity funds.

named sources to vilify Sovereign Equity. According to his report, "Street sources say Sovereign is controlled by Abramo." We again vehemently deny any such control relationship with the individual he has described as a "reputed Mob financier," as we did after your prior, similarly unsubstantiated assault on our company in December, 1996.

Mr. Weiss has continued to draw erroneous conclusions and has again created an unfounded air of suspicion surrounding our company.

Thomas W. Hands
Director of Compliance
Sovereign Equity
Management Corp.
Boca Raton, Fla.

PRIVATE CAPITAL IS NO PANACEA FOR NEEDY NATIONS

Rudi Dornbusch suggests that inter-governmental financing is less necessary in these days of buoyant capital flows to developing countries ("Do we

really need the World Bank anymore? Economic Viewpoint, Feb. 24). While public funds, he asks, if private can do a perfectly adequate job? And as the International Monetary Fund concerned, the answer is threefold.

First, as happened to Mexico in 1995, a country can lose access to national capital markets just as it undertakes painful changes in economic policies. IMF lending can help speed a country's return to private financial markets.

Second, because the economic crises promoted by the IMF are market friendly, IMF financing directly increases the creditworthiness of the borrowing member. Finally, if any lesson has been learned from Mexico, it is that mutual support is needed to ensure proper correction and spread the burden of support across the IMF's members.

Shailendra J. Arora
Director
External Relations Department
International Monetary Fund
Washington

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Business Week

A Division of The McGraw-Hill Companies

APRIL 14, 1997 (ISSN 0007-7135)*** 3522

The Founder James H. McGraw (1860-1948)

Business Week is published weekly, except for two issues combined annually in December and January.

Subscription rates for 1997: Single copies \$5.00; 1 year (12 issues) \$59.00; 2 years (24 issues) \$109.00.

Postmaster: Please send address changes to Business Week, Attention: Fulfillment, P.O. Box 518, Hightstown, NJ 08520.

Business Week is published by The McGraw-Hill Companies, Inc., 1221 Avenue of the Americas, New York, NY 10020.

Printed in the U.S.A.

BLIND, FLYING SAFE

by Mary Schiavo with Sabra Chartrand
373pp • \$25

AS THE FAA ASLEEP THE JOYSTICK?

In the days following the horrifying crash of ValuJet Flight 592 into the Florida Everglades last year, many federal regulators and aviation-industry officials rushed to soft-pedal the catastrophe. Suggesting that the incident was an anomaly, the head of the Federal Aviation Administration, David B. Bonior, went so far as to say: "The plane is safe to fly. I would fly it." Then-Transportation Secretary Federico Peña: "ValuJet is a safe airplane. It is our entire aviation system."

But Mary Schiavo, the nation's watchdog over aviation safety, was on the scene to confront such complacency. Federal regulators eager to protect startup airlines such as ValuJet have contributed to the crash by failing to enforce their own safety rules, she said. "It's not my job to sell tickets on ValuJet," she added in a rebuttal that in typical fashion she challenged her colleagues' approach.

Flying Blind, Flying Safe is a memoir of Schiavo's six years spent as inspector general of the Transportation Dept. and aide to airline-policy makers she would like to see. The author recalls the ValuJet episode and other incidents with pointed disdain. After time, she recalls, federal bureaucrats chose to side with aviation-industry officials instead of looking for the interests of the people they were supposed to protect. This thesis was hammered home, as Schiavo and co-writer, *New York Times* reporter Sabra Chartrand, survey evidence of overspending by the FAA and airports, airport security, and the use of counterfeit airplane parts.

In this often amusing, sometimes sobering book, Schiavo chronicles just

how chaotic and self-serving the federal government can be. However, her account also shows that individuals still can make a difference in Washington.

"What I did not anticipate was the fortitude I'd need to be able to live with making enemies," Schiavo writes, recalling the storms her investigations created. "I knew there would be opponents outside government. But, in fact, the most forceful came from inside the Department of Transportation..."

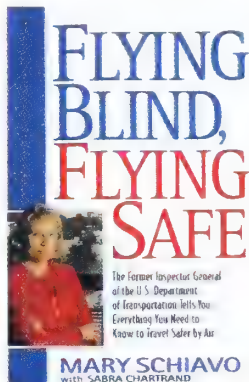
There's little doubt that Schiavo was prepared for such challenges—she began bucking conventions as a girl. While classmates in her hometown of Pioneer, Ohio, were concerning themselves with proms, jobs after high

school, or college prospects, the 18-year-old Schiavo was earning her pilot's license. She went on to Harvard University, law school at New York University, and then, in her first big career break, a job as a federal prosecutor in Kansas City. It was a position that Schiavo says prepared her well for the murky crosscurrents of federal government. Schiavo was considered so tough,

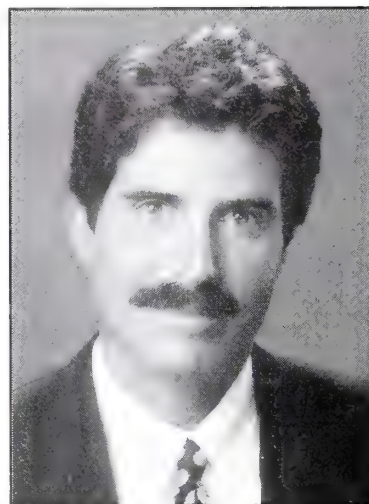
she recounts proudly, that she was dubbed Maximum Mary.

Next came a posting as a White House fellow and then one as assistant secretary at the Labor Dept. Although Schiavo was clearly having a stellar career, she worked in relative obscurity. All that changed in 1990, when Maximum Mary was appointed inspector general at Transportation.

Almost immediately, Schiavo brought her investigative skills, tenacity, and straightforward speaking style to bear. She focused public and congressional attention on lapses in airport security, the prevalence of counterfeit parts in



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Books

the nation's airplane fleet, and gross mismanagement at the FAA. Schiavo turned what traditionally had been a low-key, insider job—one that had been geared primarily to budget questions—into a national forum about the safety troubles that had gone largely unchecked for decades.

Consider her thoughts on the FAA's handling of ValuJet: "The FAA did not fall down just on ValuJet. It was incompetent at virtually all of its inspection responsibilities. It failed to weed out the examiners who certified aircraft mechanics; it was sloppy about inspecting aircraft parts; it gave up together on surveying foreign factories that manufactured airplane engine body components; it paid lip service to thousands of airplane checkups and lot tests."

One of the amusing chapters in the book is entitled, "Relative Truth: Culture at the FAA." Schiavo recounts an investigation into the agency's employment of a psychologist named Gregory May, who ran FAA training seminars. May relied on such techniques as sleep and food deprivation. One of his instructors for a seminar entitled "Element training" sniffed student clothes in a quest to classify the person as either water, wood, fire, earth, or metal. Outlandish? Undoubtedly. Schiavo May managed to win contracts with the FAA for more than a decade, raking in at least \$1.6 million. Finally, in April 1996, he was convicted of mail fraud and sentenced to six months in prison. To Schiavo, the entire episode was just one more example of how the agency was adrift.

The writing in the book is engaging, and Schiavo bolsters her own credibility by naming names. However, the account comes up short in some ways. Schiavo skimps on details of her own life. Just how did Schiavo become a White House fellow, and how important were Republican political contacts to her winning the job at Transportation? For those who have closely followed the FAA's recent missteps, there are few new revelations. Schiavo urges travelers to gather safety information on airlines, but she overlooks how hard it is to obtain such data.

Still, *Flying Blind, Flying Safe* is an incisive primer on what ails the aviation industry and the feds' regulation of it. And in a city dominated by slippery rhetoric and self-interest, Schiavo's bluntness is welcome relief.

BY CHRISTINA DEL VALLE
Del Valle covers aviation
from Washington

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Many companies offer financial data, but few use the Web in all its multimedia glory

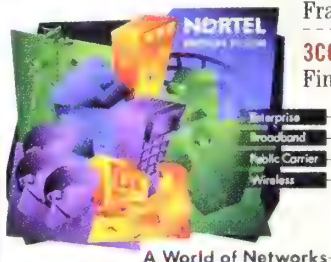
In recent years, companies have discovered that the World Wide Web can be a good way to get information to customers. Now, in this season of annual reports, they are learning that it also can be an effective way to communicate with employees and—most particularly—shareholders and prospective investors.

To see how the Internet is changing the concept of the annual report, I toured the Web sites of the high-performance companies on the BUSINESS WEEK 50 list and took a peek at the online offerings of selected other corporations. I found that most provide some investor data online, but it's not always useful. I located Web sites for all but three of the BW 50. Of these, 39 offer at least some financial data, but just 28 provide a complete 1995 or 1996 annual report. Some also offer copies of dull but important Securities & Exchange Commission filings, such as 10K annual financial reports and proxy statements. Others offer links to the SEC's EDGAR database (www.sec.gov), where all corporate filings are available.

DULL TO DRAMATIC. I found some dramatic differences in approach. Offerings range from bare-bones financials, some with barely readable text, to colorful and sometimes animated annual reports with multimedia glitz. The more basic ones can be

boring. Granted, even if an online report is boring, it can still be useful to the investor. But some companies are using the Web to go beyond what they can do in print, making the sites more informative as well as more interesting. Many, for example, provide a current stock quote and history on stock prices and trading activity.

Not surprisingly, high-tech companies are generally the cleverest at taking advantage of the new medium. For example, Intel offers three versions of its online annual report. The simplest, designed for 14.4 kbps modem connections, is mostly text. The middle version, for 28.8 kbps, comes with richer graphics. And the rendition designed for fast connections offers sound, animations, and financial graphs



that pop up as you click on highlighted text. You can watch slides of last year's annual meeting and hear speeches by CEO Andrew Grove and other key execs.

IBM's 1996 report has an interactive "historical charts" section that lets you plot up

to five data series on a single grid (but not with a Microsoft Internet Explorer browser, for some reason). You can roll your own charts at the 3Com site by downloading tables into a spreadsheet.

Compaq Computer also uses its electronic annual report to offer something extra. A link takes you to the ProLytiX site, a subscription-only service aimed at professional analysts. It offers a wealth of financial information, including many ratios not published in financial statements. People coming from the Compaq site have free access to all Compaq information.

wide, some companies have crafted their sites to appeal to a global audience. Microsoft provides its financials in four languages and converts data into six different currencies. Northern Telecom offers its entire annual report in French, German, and Spanish as well as English.

DUMPY. High-tech companies use their Web sites as technology demos, but not every corporation shares those ambitions. Still, even a simple Web site can be an effective way to communicate with investors. The trick is to follow a few simple rules.

The worst online annual reports simply duplicate the text of the printed version onto the Web, with type that is too small and pages that are too long for easy browsing. Freddie Mac is an example. At the bottom of each page should be links to the next page, the previous page, and the table of contents. This sounds elementary, but a number of sites, including Microsoft's, fail to do it.

Finally, graphics have to be chosen with care. Too few and the report is usually oppressive. Too many, and the pages take too long to download. And it takes some effort to make sure the graphs and charts are readable. Medtronic (www.medtronic.com), for example, has lots of useful-looking graphs in its online report, but I could barely read the captions.

Many of the annual reports now on the Web represent first efforts, and it shows. Come back next spring, and think you'll find that online financials will be a feast for investors' eyes.

Financials with Pizzazz

INTEL

www.intel.com/intel/finance

Annual report tailored to different connection speeds; audio and slide shows from annual meeting.



IBM

www.ibm.com/AnnualReport/1996

Java applet that allows you to build your own charts of historical performance.



COMPAQ COMPUTER

www.compaq.com/corporate/ir

Link to ProLytiX site, usually subscription-only, allowing extensive analysis of Compaq financials.

MICROSOFT

www.microsoft.com/msft

Financial tables can be converted into local languages and currencies for Britain, Canada,

France, Germany, and Japan.

3COM

www.3com.com/investor

Financial tables can be downloaded as Excel spreadsheets for roll-your-own analysis.

NORTHERN TELECOM

www.nortel.com

Annual report text available in English, French, Spanish, or German.

DATA COMPANIES

A key advantage of online communication is up-to-date information, which some companies have put to good use. Norfolk Southern, for example, has used its site to keep investors posted in its fight to acquire Conrail.

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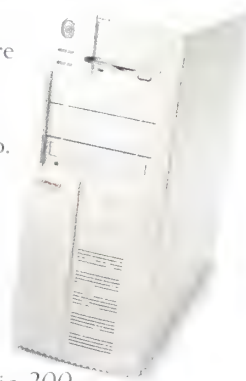
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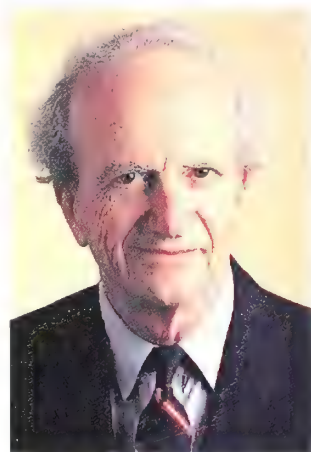


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BY GARY S. BECKER

WHY A CRASH WOULDN'T CRIPPLE THE ECONOMY



ASSETS:
Human capital is a far more important form of wealth than stocks and bonds—and is largely unaffected by the market's gyrations

Human capital is the most important type of wealth in the U.S. and other modern nations. This crucial fact is being neglected in assessments of the macro-economic consequences of a possible crash in stock prices.

Wealth in the form of human capital consists of present and future earnings because of education, training, knowledge, skills, and health. Since wages and salaries account for over 75% of the national incomes of developed countries, it should be no surprise that human capital is estimated to be three to four times the value of stocks, bonds, housing, and other assets. For most employees, human capital and housing are their only important wealth, since stocks and bonds are concentrated in the portfolios of the rich and in pension assets of retired persons.

Human capital's dominant position in aggregate wealth implies that even large changes in the market value of stocks and other assets will not greatly affect the behavior of most people unless the value of their human capital also changes. In particular, stock crashes alone should not cause serious recessions in economic activity.

LUXURY LOSSES. The last crash in U.S. stocks occurred in October, 1987, after prices had been rising for about a year. On one day in that month, prices fell by over 20%, one of the largest declines in American financial history. There was panic in the media and Washington—but not among consumers and companies. The only noticeable effect of this meltdown in stock values on the real economy was a large fall in employment in the securities industry and weakened demand for expensive cars, yachts, jewelry, art, and other luxury items. After the widespread predictions of another 1929-style economic collapse did not materialize, stocks also recovered to their pre-crash levels.

The 1987 plunge lopped some \$1 trillion off stock values, which reduced financial wealth by about 8%. But since this lowered total wealth by less than 2%, it could not have a major impact on the economy unless it eroded confidence in the earning power of human capital. In fact, I used the stability of human-capital values to correctly predict shortly after the crash that there would be only a small overall effect on the economy (BW—Nov. 9, 1987).

That experience is fully applicable a decade

later. World stock markets have surged during the past two years: U.S. stocks have risen over 50% since the current phase of the market began almost two years ago. For most Americans are only slightly better off, though the increased financial wealth of a small number of rich individuals has fueled a revival of the markets for art and other expensive goods.

DANGEROUS TALK. The extended bull market and rising ratios of stock prices to corporate profits has alarmed a growing number of officials and analysts, including Federal Reserve Chairman Alan Greenspan and the highly successful investor Warren Buffett. Greenspan warned that prices have been inflated up by "irrational exuberance," and he has implied that a crash might propel the global economy into a serious depression. Although past experience indicates that stocks do not contract at irregular intervals, the market to a large extent listens to its own drummer. Neither Greenspan nor anyone else can predict when a crash might happen. While price-earnings ratios are high by historical standards, even bigger ratios in the past have frequently been followed by further rises in stock prices for extended periods.

Greenspan's comments are dangerous because asset prices are sensitive to expectations and confidence about the future. Government officials should not try to tamper with this confidence, since pessimism induced by bearish comments by leading officials may feed on itself and spread among investors. Adam Smith cautioned 200 years ago that government planners should not have the hubris to believe they can manipulate the economy the way a grand master manipulates his chess pieces.

But even if stocks do crash, the good news is that this will not have a big effect on aggregate employment and output as long as the value of human capital is not greatly affected. In particular, even a 25% fall in the stock market that melts overall equity value by several trillion dollars reduces the total wealth of the U.S., inclusive of human capital, by less than 3%.

The importance of human capital is frequently recognized in a general way by politicians and others. But it is still commonly overlooked when analyzing the broader economic implications of stock market booms and busts.



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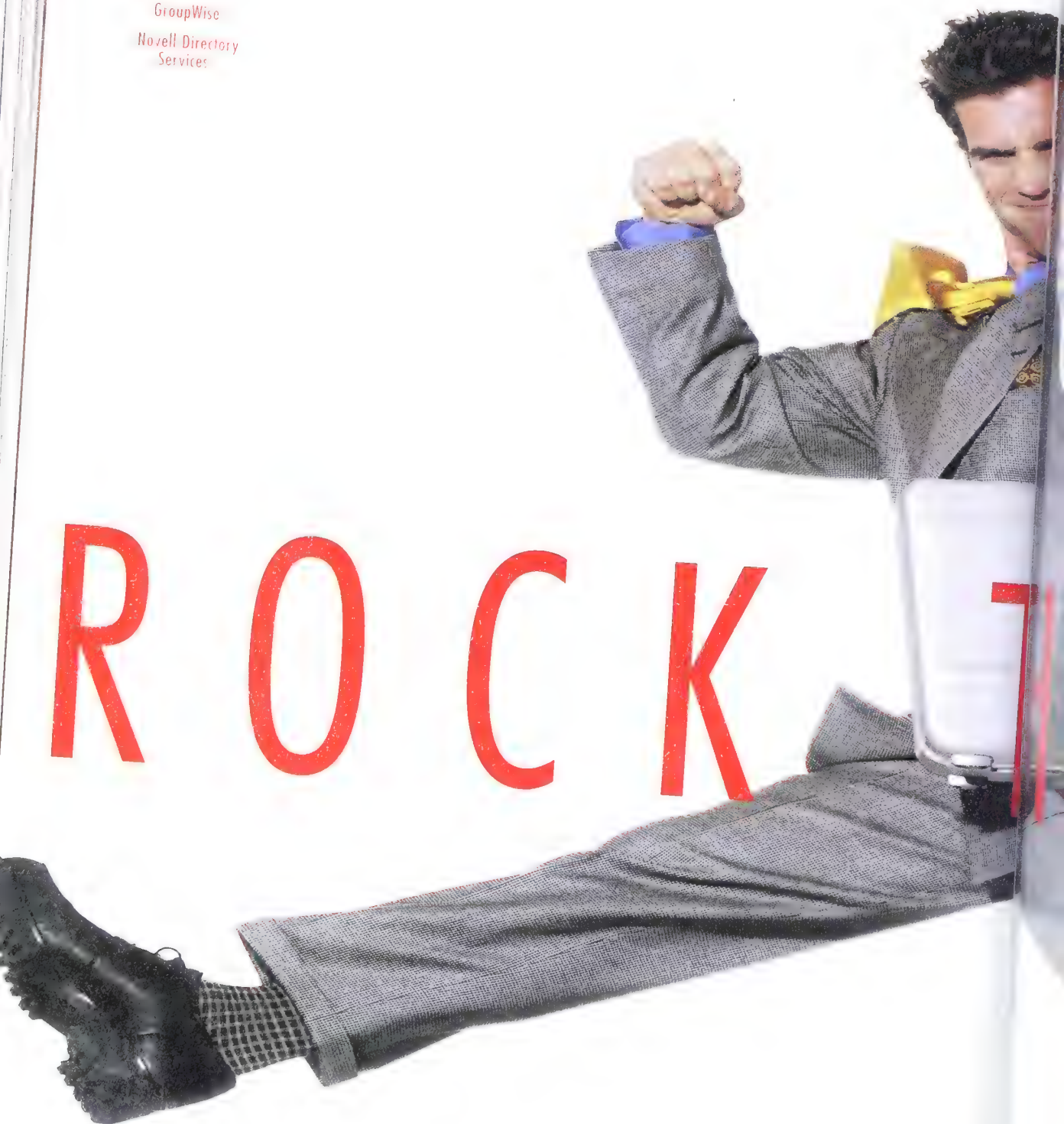
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THE NET

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BY GENE KORETZ

SHELVES WON'T STAY SO BARE

But an inventory upswing has risks

Although shifts in inventory demand usually play a big role in business cycles, their impact has been subdued in recent years. Now, with consumption coming on strong for two quarters in a row, that situation is about to change.

"There is no doubt that inventories will boost growth in 1997," says Edward E. Yardeni of Deutsche Morgan Grenfell Inc. He notes that the overall inventory-to-sales ratio fell to a record low in January, with manufacturing stocks the tightest in memory and with retail inventories, except for early 1994,

READY TO BUILD INVENTORIES AGAIN



the leanest they've been in a decade.

Indeed, to many observers, the current picture stirs memories of the first half of 1994. That's when a sharp pickup in inventory investment seemed to ignite an inflationary surge in growth—spurring the Federal Reserve to boost interest rates for four months in a row.

For the moment, the consensus is that history will not repeat itself. Yardeni is looking for only a moderate increase in inventory building. "In 1994," he says, "we were coming out of a weak recovery, there was strong pent-up demand for cars and houses, Europe seemed to be on an upswing, and commodity prices were exploding." In 1997, he notes, pent-up demand has been satisfied, Europe is sluggish, and the strong dollar suggests that inventory needs will be met with rising imports.

Similarly, David Kelly of Primark Decision Economics argues that today's apparent inventory tightness is in part a reflection of the widespread adoption of just-in-time inventory control techniques. And that development plus the general

expectation that consumption will soon slow again is leading many forecasters to predict that any inventory buildup will be relatively modest.

Still, one sign of rising inventory demand—an upturn in raw-materials prices—has recently surfaced. And as economist Paul Kasriel of Northern Trust Co. observes, "inventories are a notoriously volatile animal." If they start to act up, it's a safe bet the Fed will snap its whip to bring them back in line.

COME BACK, LITTLE BEEMER

Lojack's impressive numbers

With 1.5 million cars stolen in the U.S. each year, it's hardly news that parking an expensive car on the street can be a gamble. Thanks to an antitheft device, however, the risk has fallen sharply in a number of cities.

The device, called Lojack, was first introduced in Boston in 1986 and is now available in 15 states and 20 major metropolitan areas. Usually sold to new-car purchasers by car dealers for a one-time fee of about \$600, the Lojack Corp. system involves a small radio transmitter that is hidden in one of many possible places in a car. When the car is reported stolen, the police activate the transmitter by remote control with equipment provided by the company, allowing police cars or helicopters to track the car's location and movements.

About 95% of stolen vehicles equipped with Lojack are recovered—38% within an hour and 75% within 12 hours. And because of the quick recovery,



A TARGET FOR CROOKS—OR A TRAP?

ery, Lojack-equipped cars sustain average damage of less than \$1,000, vs. some \$4,000 for the 60% of non-Lojack stolen cars that are eventually recovered, according to estimates by Ian Ayres and Steven D. Levitt in a National Bureau of Economic Research study.

But the biggest surprise, report the two researchers, is that the benefits of Lojack to individual owners are far outweighed by the benefits to society as a

whole. By leading police directly to stolen cars, Lojack helps them to bring down "chop shops" that dismantle vehicles for resale of parts. (As a result of Lojack, some 53 chop shops in Los Angeles alone have bitten the dust.) That creates a strong deterrent effect.

Professional car thieves have no way of knowing whether an individual is armed with Lojack, but they do learn of the presence of such cars and react accordingly. Ayres and Levitt estimate that one auto theft is eliminated annually for every three Lojacks stalled in central cities.

Although Lojack buyers normally receive a discount on theft insurance, researchers find that current discounts provide the average purchaser with a small net benefit on a cost-benefit basis. By contrast, the benefit to society in terms of less overall auto theft runs much as 15 times that to owners. That suggests that state regulators could boost the social gains by setting more generous insurance discounts for Lojack-equipped cars—thus inducing more owners to install such devices.

DOES CORPORATE CRIME PAY?

No, but the market is forgiving

Does a company's being convicted of an illegal act have a bearing on its future performance? A study by Mel S. Baucus and David A. Baucus of Utah State University in the *Academy of Management Journal* says yes—but surprisingly, not necessarily on its valuation by Wall Street.

In an analysis of 256 major corporations from 1974 to 1983, the researchers compared the performances of the lawbreakers in the sample (with upheld convictions for such acts as employment discrimination, antitrust violations, and harmful products) with those with no infractions. Over the first five post-verdict years, they found that the convicted companies consistently lagged behind their peers by as much as several percentage points in sales growth and returns on both assets and sales.

Despite their lagging performance, however, the stocks of most convicted companies kept pace with the stock market over the five-year period being studied (even though they dipped briefly when the companies were charged with conviction). Only the stocks of those assessed punitive damages in product liability cases took a relative bath.

JAMES C. COOPER & KATHLEEN MADIGAN

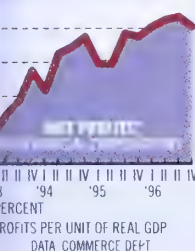
WHY A HOT ECONOMY COULD BURN PROFITS

Profits may be starting to get squeezed from all sides

U.S. ECONOMY

Don't fight the Fed. The financial markets seem to be taking the old adage to heart. But Wall Street is starting to worry about more than just the Federal Reserve and interest rates. Another growing concern is the outlook for profits, which have been the real driver behind the bull market of the '90s.

WILL MARGINS CONTINUE TO ERODE?



profit data (chart). And with costs rising amid pricing power, that pattern is likely to continue. And, most important, the Fed has served notice that it wants to slow the growth of demand, meaning later this year, many companies may find it difficult to meet their sales projections.

Right now, though, business is booming. The latest data show that consumers are flush with cash and are spending briskly. Builders are taking advantage of rampant demand and the mild winter. And the industrial sector's combination of strong orders and thin inventories means the economy's momentum is carrying it into the second quarter, as robust first-quarter demand fuels production this quarter. All this strongly suggests that the Fed's work is not yet finished.

UNDERNEATH THIS UPBEAT CLIMATE, however, is the shadow of a cost squeeze that could pressure profit margins and put 1997 earnings at risk.

At one level, it's an old story. As business expansions go on, productivity gains are harder to achieve, and in the absence of a productivity offset, faster wage growth raises unit labor costs. But in this expansion, the tale has a key difference: Pricing power remains weak, unlike in past expansions, when businesses could maintain profit margins by lifting prices when tight labor markets started to boost costs.

The Commerce Dept.'s data on fourth-quarter profits show that the profit margin for nonfinancial corporations

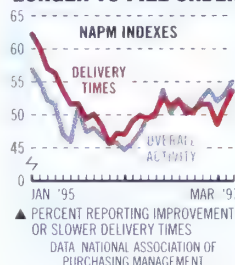
fell. This margin is measured by earnings per unit of inflation-adjusted output. The drop is noteworthy because it occurred in a strong economy. The last time it declined significantly was in the first half of 1995, when economic growth fell to 0.6%.

Margin erosion likely will continue in 1997. First-quarter data are still sketchy, but what is available does not paint a favorable picture, even for the nonfinancial sector, where productivity data are more reliable. Given that both real gross domestic product and overall hours worked probably rose at about the same pace of 3% or so, first-quarter productivity looks flat. And since wages and benefits continued to accelerate, first-quarter unit labor costs appear to have risen faster than prices. Result: a squeeze on the cost side.

MOREOVER, THE NEWEST WRINKLE in the profits outlook is the Fed's commitment to keep pricing power under heel even as costs are rising. More rate hikes may well be necessary to achieve that, and such moves would lift business costs even more, as companies find it more expensive to raise new capital.

Further rate hikes seem especially likely given the economy's unrelenting signs of strength. In particular, the National Association of Purchasing Management's index of industrial activity rose considerably in March, to 55% from 53.1% in February. The reading was the highest in two years, and the gain was led by orders, employment, and slower delivery times (chart).

MORE COMPANIES TAKE LONGER TO FILL ORDERS



The latter is a sign that the production and distribution system is starting to strain under a quicker pace of demand. Fed Chairman Alan Greenspan is a fan of the indicator, because pressure on production capacity can fuel price increases. But even as the NAPM report joined a long line of recent data that suggest further rate hikes, the NAPM's index of prices paid actually fell, showing little in the way of pricing power.

That's the way the Fed would like to keep it, but in an economy with this much momentum, a quarter-point hike in interest rates seems mighty small. The production side of the economy is gaining steam, because the same strong labor markets that are putting

Business Outlook

companies in a cost squeeze are also generating greater buying power for households.

The government's report on personal income and spending for February confirms what the January and February retail sales data had suggested: that real consumer spending in the first quarter rose at an annual rate of 5% or greater, the strongest quarterly increase in five years. More than that, real aftertax income of households increased at an annual rate of 6% or more, the biggest gain in nearly three years (chart).

STEADY INCOME GAINS also are powering the housing market. Sales of existing homes soared 9% in February, to an annual rate of 4.26 million, close to a record high. New-home sales slipped 0.7% in February, but the rate of 811,000 was well above the fourth-quarter average.

Solid housing demand coupled with a mild February boosted construction activity. Building outlays jumped 2.3% in February, with residential, commercial, and public-works projects all rising. The strong increases in construction this winter may well have stolen from spring building. But the need to furnish the new homes and equip the new offices and factories should keep demand for manufactured goods rolling along.

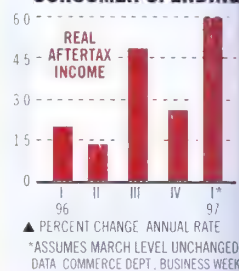
In fact, factory orders rose 0.8% in February, even with a huge drop in aircraft orders. The gain followed a large 2.5% jump in January bookings. The backlog of

unfilled orders also rose, and the ratio of inventories to shipments fell further, suggesting some stock rebuilding in coming months. As a result, the economy could post three quarters of growth in the 3% to 4% range. The pace would be well above the noninflationary speed limit of 2½% or so, at a time when the economy's sources are already stretched thin.

The stock market is caught squarely in the middle of all this. Fed interest rate hikes unleash the two great fears of equity investors: that higher rates will slow the economy, hurting profits; and that higher bond yields will make stocks comparatively less attractive. That's why the stock market will continue to swoon as long as economic indicators point to an overly strong economy.

Is there an easy way out of this box? Not really. Profit growth in 1997 is going to slow, mainly for cyclical reasons. How much they slow, however, will depend on how much the Fed has to tighten policy. The damage to profits and the stock market will be contained as soon as the economy cools down, preferably back to Goldilocks pace of 1995-96. But the way the data look right now, this economy is way too hot for the Fed.

THE POWER BEHIND CONSUMER SPENDING



AUSTRALIA

REAPING THE REWARDS OF MODEST GROWTH

Australia appears to have dodged the policy bullet shot by the Federal Reserve. But an interest-rate hike can be avoided only if the economy stays on its modest-growth, low-inflation path.

The consensus forecast is that Australia's real gross domestic product will grow by 3.3% this year, slightly faster than the 3.1% gain of 1996. But unlike in 1996, growth in 1997 will be more evenly split between domestic demand and exports. Exports

surged 11% last year, but they will likely grow by only half that much in 1997 because of the Australian dollar's 3.8% rise over the past year.

And as long as the Reserve

Bank of Australia can avoid following the Fed, lower interest rates will lift domestic demand. The RBA has some breathing room because Australia's inflation outlook is even tamer than that of

the U.S. Consumer prices are expected to rise just 1.3% in 1997, about half the rate in 1996.

The economy is off to a good start in 1997. A survey by the Australian Bureau of Statistics reports that companies say that sales rose a solid 2.9%

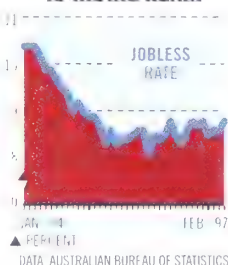
last quarter and will grow 1.6% in the second. The demand pickup may stem the recent erosion in the labor markets, where the jobless rate—which had fallen as low as 8.1% in late 1995—is on the

rise again (chart). A turnaround could keep consumers spending.

The downside to strong domestic demand is faster import growth, which means the trade deficit will hinder GDP growth. And fiscal restraint also will slow the economy in 1997 and 1998.

In addition, one risk to the outlook for low inflation and steady monetary policy is the prospect for wages. Pay raises edged up 1.4% in 1996, but the Australian Council of Trade Unions is seeking an 8.75% hike for 1997. The Industrial Relations Commission is expected to decide on the ACTU demand soon, but the RBA and government have warned that such a pay hike risks higher inflation and interest rates. So the move could penalize those still seeking work, because economic growth would slow by late this year.

AUSSIE UNEMPLOYMENT IS RISING AGAIN



EVEN
——— *Though it's* ———
OUR WEEKEND
rare that we see one with
GUESTS
——— *three pieces.* ———
WEAR SUITS.

We also see some ties, like the drawstrings on the sweatpants you'll wear in our mini-gym. Because at Courtyard by Marriott, everything's relaxed on the weekends, including our rates. You can even linger over our hearty breakfast buffet — but accept our apologies if it makes it a little bit harder to squeeze into your swimsuit.



THE HOTEL DESIGNED BY BUSINESS TRAVELERS

THE MARKET

WHERE THE BEARS

Only a year ago, Matritech Inc. was a darling of Wall Street—a classic “momentum stock.” The Newton (Mass.) company is developing new methods of diagnosing cancer, and over four months early last year, enthusiastic investors drove up Matritech’s share price by 300%. “The stock was taking off like a rocket,” says Matritech’s chief executive, Stephen D. Chubb. But in recent months, the momentum has gone into reverse. Despite generally favorable news and buy recommendations from analysts, institutions have begun to drift away. Matritech shares that traded at \$18 last May now change hands at about \$5.

There are a lot of Matritechs out there—companies whose stocks were ailing long before a Federal Reserve rate hike sent the entire market into a swoon at the end of March. Until the recent sell-off, continuing strength in the blue chips diverted attention from what was happening in smaller, less followed stocks: For thousands of them, a correction had been under way for quite some time. “The market has simply not been as strong as the indexes have looked,” notes Michael Metz, investment strategist at Oppenheimer & Co.

BIGGEST RISK. But this is not necessarily bad news. Some market observers believe that this “hidden bear market” may have already set the stage for a rebound—particularly among the segments of the issues that have taken the worst drubbing. Indeed, some analysts figure that bargain-hunting investors may have a field day in small-cap stocks—but only after the smoke clears. More pullbacks could follow in the coming weeks, perhaps even worse than the 400-point slide that the Dow Jones industrial average took between Mar. 24 and Apr. 2. The biggest immediate risk: another inflation-fighting rate hike by the Federal Reserve. And there are plenty of market watchers who are bracing for an outright bear market, on the assumption that a slowing economy will soon drag down earnings (page 36).



THE RISING AVERAGE

Despite recent setbacks, the indexes are still up over a year ago

Until recently, signs of a slowdown have not been evident in the major indexes. Even now, the Dow Jones industrials and the Standard & Poor's 500-stock index have both generated one-year total returns of 20%. Even the Russell 2000 index of small-company stocks has gained, if only by a

modest 5% in the 12 months ending Mar. 31 (chart).

But looking behind those numbers, the pain suffered by thousands of investors becomes evident. In the first quarter of 1997, fully 225 of the stocks in the S&P 500 posted negative returns for their shareholders (chart). T

WORKS

Thousands of stocks were ailing before this correction

include such prominent names as 3Com, and Amdahl. From W.R. to IBM to U.S. Surgical and Matritech, the ranks of the market's big losers have been growing. Small companies, as a group, have declined 28% in the past three months. And gas companies are down 21%. Hospital-management companies have fallen 15%.

Be sure, it is not unusual for large numbers of stocks to decline even in the best of markets. In 1995, a general-heat year, 31% of stocks declined, according to figures compiled for BUSINESSWEEK by Standard & Poor's Corp., a unit of The McGraw-Hill Companies. But the ranks of the losers have been growing. In 1996, even though the market rose 20%, the number of net losers grew by one-third, to 40%. In

ing to S&P, about 50% of all stocks declined between Dec. 31, 1996 and Mar. 31, 1997.

These numbers go a long way to explaining what Morgan Stanley & Co. market analyst Byron R. Wien describes as a "sour, bear-market mood" among portfolio managers. "The market has had too narrow a focus," says Wien, and that has translated into troubles for money managers who have strayed from the herd. "If people didn't care about getting large-cap exposure they were hurt very badly," says Peter Stonberg, chief investment officer of State Street Boston Corp. Global Advisors.

The full extent of the split between small- and big-cap stocks becomes more apparent when you focus on the NASDAQ. According to the S&P figures, 62% of the

dexes stop looking bulletproof, there may be no such haven. In further corrections, the enormous flows that have gone into index funds may go elsewhere, argue Metz and other market analysts.

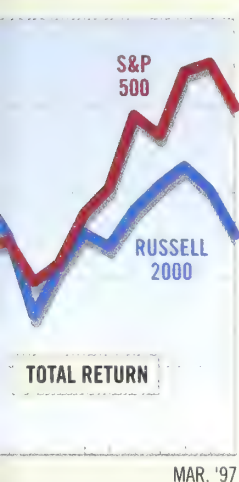
That could help bring back small-cap issues. For value-hunting investors—with strong nerves—their declines may already represent some alluring opportunities. Arthur J. Bonnel, who runs the Bonnel Growth mutual fund, shrugs off the market's recent troubles as "normal and healthy—a part of life." Bonnel, in fact, is looking for an upturn. "Once the big caps drop, it's closer to the end than the beginning of the decline," he says. Thus he thinks the market will soon be rife with "great companies at realistic prices."

GOOD OMEN. The recent softening in the market for initial public offerings is also viewed as a bullish omen in some quarters. Claudia Mott, a quantitative analyst who tracks small-cap stocks at Prudential Securities Inc., thinks that the large number of IPOs last year had drawn cash away from other small-cap stocks. Yes, bears will continue to focus on the danger of weaker earnings growth. But Mott argues that small-cap stocks are less exposed to the negative ramifications of the rising dollar than are large-cap stocks and that their valuations are increasingly tempting.

A return to favor of the secondary stocks won't come a moment too soon for Matritech. Its market capitalization has now

shrunk to \$80 million, and its depressed share price has discouraged the company from trying to raise additional capital. But Chubb is hopeful that value-conscious investors will start coming his way. "My wife just joined an investment club and has been reading Peter Lynch. He just loves down markets. When stocks are depressed, it's time to buy," says Chubb. That's the silver lining lurking behind the market's gloom.

By Gary Weiss in New York



cases, the declines can be traced to industry-specific troubles, such as dogging AT&T and other telecoms. Matritech and other small biotech outfits were victims of an unwind of former "momentum" buying by institutions.

The overall trend is disturbing. Of 1,900-odd stocks that traded on Mar. 1996, and were still around a year later, nearly 3,600—45%—had declined mid-March of this year. And, accord-

1,100 stocks traded on the NASDAQ small-cap market were flat or down during the past year. The NASDAQ national market system and American Stock Exchange were hit almost as badly: 48% and 45%, respectively.

By contrast, only 34% of the New York Stock Exchange's 2,600-odd stocks were flat or losers over the past year. One reason: Institutions stayed in the NYSE and other large-cap issues to avoid risk. But if the big-company in-

COMMENTARY

By Michael J. Mandel

IT'S ALL HANGING ON HIGH TECH NOW

Can the bull market survive? The spectacular stock boom of the last two years has been driven by low interest rates plus rising profits in two key sectors: high tech and financial services. From the end of 1994 to the end of 1996, these two sectors accounted for almost three-quarters of all the profit gains among the stocks in the S&P 500 index (table).

Now the Federal Reserve has chopped off two of the bull market's three main supports. It has boosted interest rates to prevent inflation and slow the economy. By so doing, it has made stocks overall a less attractive investment, while at the same time undermining the financial-services sector. Banks, Wall Street firms, and other financial-services companies typically do poorly when rates are rising. Indeed, the stocks of money-center bank stocks have dropped by 15% since Mar. 10.

DECIDEDLY DOWNBEAT. That leaves computer, software, networking, and other high-tech stocks as the last support for the bull market. The early signs from that sector are not good, either: The Morgan Stanley High-Tech index has plummeted by 18% since mid-January, and the latest earnings reports are decidedly downbeat. Unless high tech can recover—as it still well might—the bull market is not likely to last much longer.

Certainly, there is little chance that a sudden surge in profitability in another part of the economy will bail out investors. Even before the Fed's latest rate rise, economic forecaster DRI/McGraw-Hill was predicting that earnings per share among companies in the Standard & Poor's 500-stock index would rise by only an average 4.7% in 1997, compared with an average an-

nual rise of 12.6% over the previous two years. Such a meager rise, combined with higher interest rates, bodes poorly for the market.

To be sure, forecasters have made such dire predictions before, only to be surprised by the strength of the

What Has Kept the Bull Alive

Two groups—technology and finance—accounted for 74% of profit increases recorded by the S&P 500 in the past two years

SHARE OF S&P PROFIT GROWTH*	
FINANCIAL	38.4%
TECHNOLOGY & COMMUNICATIONS	35.4%
HEALTH	16.6%
UTILITIES AND TRANSPORTATION	10.3%
CAPITAL GOODS (EXCEPT COMPUTER)	8.8%
CONSUMER GOODS	0.7%
ENERGY AND BASIC MATERIALS	-10.2%

*Fourth-quarter 1996 vs. fourth-quarter 1994, adjusted for mergers

DATA: STANDARD & POOR'S COMPUSTAT, BUSINESS WEEK

high-tech sector. In early 1996, for example, DRI/McGraw-Hill predicted that profits would slump by the end of the year, holding down the stock market. Instead, fourth-quarter 1996 profits were more than 30% higher than expected. Intel, Microsoft, and IBM together saw their quarterly profits rise by 59% from the second

quarter of 1996 to the fourth quarter. That made up for weakness outside the high-tech sector, where profits fell over the same period.

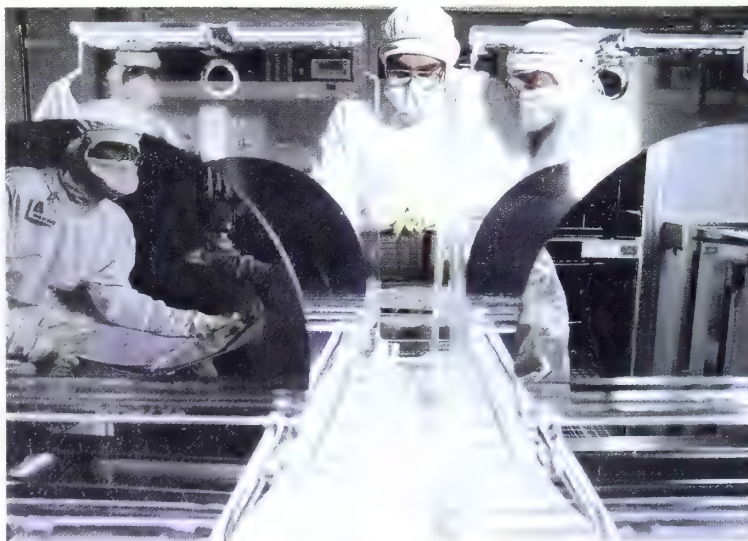
However, it's looking less likely that high tech can repeat its rescue act. Many tech companies are warning that the sales they expected at the end of the first quarter did not materialize, leading to forecasts of slowing revenue growth. The carnage has been greatest in the high-flying networking stocks, with the plummet downward led by 3Com Corp.'s 57% drop in share price since the beginning of the year.

The slowdown is spreading beyond networking. Computer makers Silicon Graphics Inc. and Digital Equipment Corp. have taken a pounding. And on Apr. 1, Informix Corp., a database software company that recorded nearly \$1 billion in sales in 1996, predicted a sharp sales decline for the first quarter in 1997.

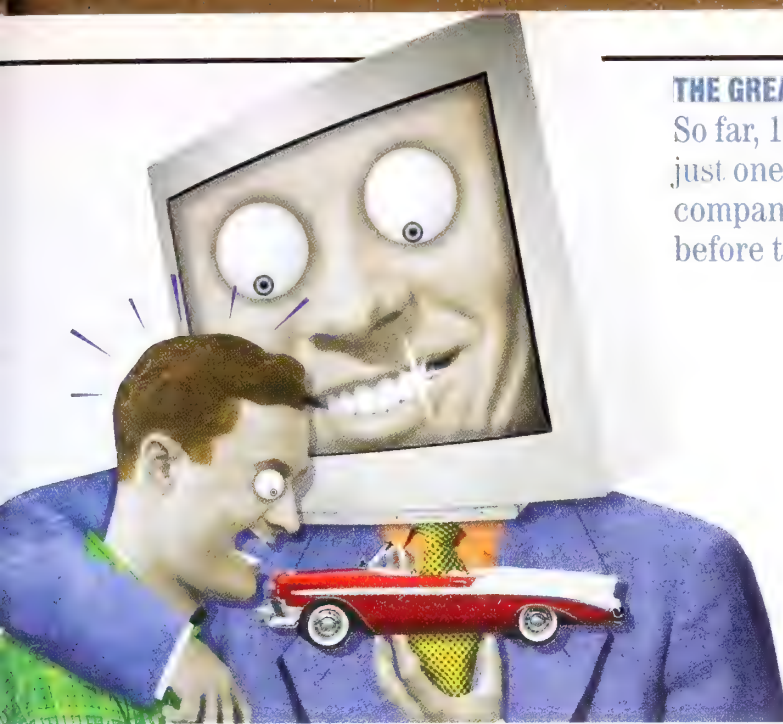
Does this mean that the market is softening for all high-tech companies? Hardly. Informix competitor Oracle Corp. turned in a strong earnings report on Mar. 13, even after warning of slowing sales in Europe. Results from the strongest performers in last year's market—Intel, IBM, and Microsoft—won't be in for a couple of weeks. And it may well turn out that the weakness in the networking market is temporary.

If the high-tech sector does falter, however, there won't be much left to keep the economy growing. Especially with the Fed ready to raise rates again at any sign of overheating, no other sector looks ready to pick up the slack. For investors who once worshiped Alan Greenspan, it's time to start praying to Andy Grove and Bill Gates instead.

Mandel is BUSINESS WEEK's economics editor.



CHIPS ARE DOWN: Many tech companies warn of a first-quarter shortfall



INTERNET

THE HOTTEST WEB IPO YOU NEVER SAW

Car broker Auto-By-Tel has to wait, must others as well?

For Peter R. Ellis, the 157-point plunge in the Dow Jones industrial average on Mar. 31 was especially dismaying. Ellis, president and CEO of Auto-By-Tel Corp., was meeting with his advisers on Apr. 1 to price the Internet company's initial public offering. By the end of that day, they had decided to postpone the deal, awaiting more favorable conditions.

As a result, Web entrepreneurs will have to cool their heels a while longer to see if the market is ready to launch Internet IPOs. Auto-By-Tel was considered one of the season's hottest IPO prospects, along with Amazon.com Inc., the online bookseller that had just filed its prospectus for an offering on Mar. 24. Auto-By-Tel hopes to raise as much as \$55 million, while Amazon.com is targeting \$37 million.

WAITING GAME. So far this year, it's been a quiet Internet IPO drought. According to Securities Data Co., only one Internet company has gone public: EarthLink Network Inc., which raised \$26 million. By year's end, eight deals had been completed, totaling \$275 million. "There are a lot of companies sitting on the sidelines, wait-

ing to go," says Ryan Jacob, director of research for *IPO Value Monitor*.

If Auto-By-Tel can't make good as an IPO, few companies can. Revenues of the Irvine (Calif.) corporation jumped to \$5 million last year, up from just \$274,000 the year before. Revenues come mostly from car dealers, who pay monthly fees for names of prospective car buyers funneled to them from Auto-By-Tel's Web site. The company lost \$6 million last year, but that's largely because it's on a spending spree to become a national brand. It's running commercials on network TV—even \$1.5 million for a 30-second spot on this year's Super Bowl.

The company is the brainchild of Ellis, once one of Southern California's largest car dealers. He was one of the first to try no-haggle selling and came up with the idea of used-car superstores before CarMax. But he lost his new-car dealerships in the California recession of the early '90s, and his used-car business collapsed later. Ellis filed for personal bankruptcy in 1994, bought his first PC, and spent a year

THE GREAT DROUGHT

So far, 1997 has seen just one IPO of a Net company—and that was before the market fell

cobbling a business plan for selling cars over the Net. He launched Auto-By-Tel on the Prodigy service two years ago and set up the Web site three months later.

Auto-By-Tel has enrolled close to 2,000 dealerships that pay \$2,500 a year plus \$150 to \$1,500 a month, depending on overall sales volume, for subscriptions to the service. Ellis figures that each lead produced by Auto-By-Tel costs the subscribing dealer about \$25—far less than the hundreds of dollars it takes to advertise and sell a car the conventional way. That lets a dealer sell the car at a rock-bottom price. "It really works," says John Phillips, general sales manager at Autoland of New Jersey, in Springfield. That dealer's five franchises sell 45 to 55 cars a month to Auto-By-Tel prospects. "It's business that we wouldn't have gotten otherwise," says Phillips.

Auto-By-Tel figures that it was behind 1% of all new-car sales last year, a number that assumes that less than half of its customers ended up buying a vehicle from the dealer who contacted them. Chrysler Corp. estimates that between 1% and 2% of its sales were done through online services last year. And some analysts expect that by 2000, 25% of car buyers will be shopping online. Rivals include AutoVantage, Autobytel Internet, and dealer Web sites.

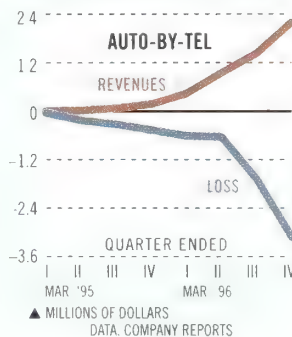
"GREAT FUN." Customers say they love virtual vehicle shopping. "I have always detested buying a new car—the hassle to get the best price," says Edith Fuhn. "But this was great fun. I think this will be the only way to buy a car in the future." In February, she and husband Louis—retirees in Kerrville, Tex.—ran across the Auto-By-Tel site on the Internet and asked for a quote on an Olds Aurora.

If Auto-By-Tel has a potential weakness, it's what the Fuhns did next. The dealer who responded was in San Antonio, 70 miles away. So they bought the car from their local Oldsmobile dealer, who matched the offer.

A consummate car dealer like Pete Ellis knows that he can't close every deal. With the market for public offerings so weak this year, he's just hoping that his own IPO does not become one of the ones that got away.

By Larry Armstrong in Los Angeles, with bureau reports

LOSSES-BY-TEL?





SCANDALS

AFTER BRE-X, THE GLOW IS GONE

Goldbugs who put their money on promised riches are turning more cautious—and some are filing suit

Last December, when the stock of Bre-X Minerals Ltd. had already begun sliding from its September high, Lehman Brothers Inc. strongly recommended a buy on "the gold discovery of the century." Bre-X's Busang gold discovery "is enormous," Lehman gushed, adding that it expected this "growth story to continue in a major way for the rest of this decade."

Today, Bre-X stock is off nearly 90% from its peak—and many analysts are wondering if Busang contains any gold worth mining at all.

The carnage extends far beyond Bre-X. This decade, Canada has emerged as the financial center of a global mining exploration boom extending from the former Soviet Union to the Peruvian Andes to the jungles of Indonesia. Hundreds of so-called junior mining companies such as Bre-X have raised the money on Canadian stock markets to finance high-risk exploration. Now the machine for financing gold mining has been damaged. The Bre-X news sparked the biggest single-day plunge since the 1987

crash on the Vancouver and Alberta Stock Exchanges, home to many junior mining companies.

Smaller Canadian mining companies that had aimed to become "the next Bre-X" now want to be anything but. "We're in the middle of a hurricane," says David A. Fennell, CEO of Gold Star Resources Ltd., which is exploring in South America and Africa. Investors eventually will be lured back by the prospect of huge finds—such as the 25 million-ounce deposit in Chile reported Apr. 2 by Bema Gold Corp. of Vancouver. But thanks to Bre-X, Fennell says, "it will be impossible to raise money" in the short term.

BLUE-CHIP BACKING. That's partly because so many companies were burned by the debacle. Lehman Brothers



NO MIDAS? De Guzman, whose death was ruled a suicide, examines a core sample.

declined comment on its glowing recommendation. But if it's any consolation, the Wall Street firm had plenty of blue-chip company. Barrick Gold, Placer Dome, and Freeport-McMoRan Copper & Gold, among other top producers, fought an epic battle to get a piece of Busang. So did Indonesia's Suharto regime, which in February managed to grab 40% of the deposit for Indonesian interests. Fidelity Investments, Investec Group, and other mutual-fund companies piled into the stock.

The episode casts an especially harsh light on J.P. Morgan & Co.—Bre-X's key financial adviser since September. As recently as February, J.P. Morgan bankers talked up Busang in a conference call in which Bre-X's top geologist predicted the deposit might contain staggering 200 million ounces of gold worth over \$70 billion at today's prices. Morgan declined to comment.

What's startling is how many of the

and brightest in the gold business and their faith in the drilling reports of an obscure company based in California, that has never mined an ounce of gold. Spokesmen for Placer Dome and Barrick Gold say they were not allowed to do their own drilling. It was not until Mar. 26 that Freeport-McMoRan, which had tentatively agreed to explore Busang, reported the first independent results: "insignificant" amounts of gold. Freeport warned that its findings were preliminary. Still, Bre-X shares rose to \$2, taking its market value to \$5 billion, down 90% from its peak of \$5 billion. On Apr. 1, on upbeat reports by Bre-X Chairman David G. Walsh, the stock bounced to \$3, but it fell to \$2 at 2% the next day.

The Bre-X tale began in 1993, when Walsh, a veteran stock promoter, traveled to Indonesia and met John B.

manager of the \$225 million U.S. Global Investors World Gold Fund, says he had 1.5% of his fund in Bre-X prior to its crash and is buying more. But other investors have claimed fraud, joining in a shareholder class action against Bre-X, its officers, and Kilborn Pacific Engineering Ltd. that was filed by Houston-based law firm Baker & Botts.

Most experts trust the analysis being conducted by Freeport, whose investigation at Busang is overseen by David R. Potter, a renowned geologist. Potter's results released on Mar. 27 show gold ranging up to just 0.06 grams per ton in seven holes drilled parallel to Bre-X holes. In contrast, Bre-X reported gold ranging up to 5.68 grams per ton in its holes.

What's more worrisome is that Freeport reported "visual differences in gold particles" taken from its samples

late January, as Freeport was about to wrest control of the project, a fire destroyed a shack at Busang containing all the geologists' records. Then on Mar. 19, exploration manager Michael de Guzman, on his way to a meeting with Freeport's due-diligence team, plunged 600 feet from a helicopter. Police ruled it a suicide. Conspiracy buffs, meanwhile, question if the decomposed body recovered from the jungle was, in fact, de Guzman's.

REPERCUSSIONS. One clear loser from Bre-X may be Kilborn Engineering, which in February estimated that, based on the sample results, Busang would yield 71 million ounces of gold. Many people had the impression that Kilborn, a widely respected firm, had independently verified Bre-X's work. Kilborn now says it based its calculations on data provided by Bre-X and did not drill its own samples.



CHAIRMAN WALSH



GEOLOGIST FELDERHOF

ON THE ROAD TO BUSANG WITH BRE-X

Here are some of the big-name players that had close dealings with Bre-X Minerals.

LEHMAN BROTHERS Described the Busang claim as the "gold discovery of the century" and recommended Bre-X last December as a strong buy.

FIDELITY INVESTMENTS The world's biggest mutual-fund company held 7.3% of Bre-X as of yearend 1996.

J.P. MORGAN The key investment banker to Bre-X since last September, it was shopping Busang to world mining giants.

KILBORN ENGINEERING PACIFIC

The respected Canadian mining engineering firm reported in February that Bre-X's Busang deposit contained 71 million ounces of gold.

OTHER GOLD COMPANIES Eager to get in on the Busang claim, gold giants tried to woo Bre-X. Placer Dome offered \$4.7 billion in a takeover bid; Barrick made its own undisclosed offer. Indonesia rejected both bids in favor of Freeport-McMoRan, which offered to pay \$400 million to help mine Busang.

INDONESIAN GOVERNMENT In February, the Suharto regime grabbed 40% of the Busang deposit for the Suharto family and other Indonesian interests. It did not pay Bre-X compensation.

erhof, a well-known geologist who co-discovered the huge Ok Tedi copper-gold mine in Papua New Guinea. erhof convinced Walsh to bet his money on Busang. Larger mining companies had explored Busang earlier but decided it wasn't worth mining. But at December, Bre-X was reporting favorable drill results.

INFORMATION. Walsh declined to be interviewed for this story, but Vice-Chairman Felderhof insisted in a Mar. 30 interview with BUSINESS WEEK that the gold is there. "This whole thing was resolved in a very short time," he says. Walsh and Felderhof have threatened legal action against those "responsible for the proliferation of misinformation on Busang. Meanwhile, Freeport, a consulting firm hired by Bre-X frantically trying to determine how much gold the site really contains. Some investors are still not ready to give up the worst. Victor Flores, fund

and those of Bre-X. That suggests the possibility that Bre-X's samples were "salted" with gold. "[Salting] is always possible if the geologists have no integrity," says Soetarto Sigit, a former director general of mines for Indonesia.

Another issue is Bre-X's handling of samples. Typically, a core is cut lengthwise and half is preserved for reference and verification. But Bre-X crushed every core entirely, leaving no verification sample. Walsh says that was necessary because the gold was "nuggety" and impossible to divide evenly. Still, it's now impossible to verify Bre-X's original samples.

A mysterious chain of events has further heightened suspicions. In

For Bre-X and its shareholders, the nightmare is far from over. The Indonesian government could take away the mine if it finds evidence of fraud, even if there really is gold there.

Some investors, including Fidelity and Invesco, say they sold much of their Bre-X stock before the crash. But for others, this incident has caused "a massive shattering of confidence," says Fennell, Golden Star's CEO. Others may venture back, Fennell says, but only if the industry agrees to a system of independently verifying extraordinary claims. One Bre-X is more than enough.

By William C. Symonds in Toronto, with Michael Shari in Jakarta

HEAVY METAL





TELECOMMUNICATIONS

IRIDIUM IS LOOKING A LITTLE STAR-CROSSED

The satellite-phone startup and parent Motorola are bickering

Motorola Inc. has been both mother and father to the satellite-phone system called Iridium. Motorola engineers hatched the idea for Iridium in 1987. The Schaumburg (Ill.)-based company provided the original funding for the 66-satellite system. It led the establishment of Iridium LLC as a separate company, supplied it with a chief executive, and pulled in other companies to finance what it estimates will be the project's \$5 billion startup price tag.

But now Iridium and Motorola are engaged in a family feud that could delay the satellite system's pending \$186 million initial public offering. They're fighting over when the much-ballyhooed Iridium will be up and running, allowing people to make voice calls or use pagers any place on earth. It was scheduled to start operating in September of next year. But according to financial documents, Motorola says there is an "excusable" delay in the launch because of problems with the McDonnell Douglas Corp. rocket that will carry the Iridium satellites into orbit.

No way, says Iridium. A McDonnell Douglas Delta II rocket launched by the U.S. Air Force did blow up on Jan. 17—and Mc-

Donnell has postponed launches pending an Air Force probe. But Motorola missed four scheduled launch dates before the explosion. Therefore, Iridium argues, there is no legitimate excuse for a delay, say sources close to the situation.

What's significant about the dispute is the effect it could have on the IPO, tentatively scheduled for later this spring. That probably can't happen until Iridium and Motorola resolve their differences.

Motorola executives play down the squabble. "It is an issue that needs to be resolved by McDonnell Douglas, Motorola, and Iridium," says Durrell Hillis, senior vice-president and general man-

MOTOROLA'S MULTIPLE ROLES IN IRIDIUM

FOUNDER In 1987, Motorola engineers proposed Iridium, a low-orbiting satellite system to enable wireless phone calls from anywhere in the world.

INVESTOR Motorola has direct investments and guarantees of at least \$1.26 billion and a commitment to guarantee another \$350 million.

SUPPLIER Motorola will receive \$3.45 billion for deploying the 66-satellite system for Iridium.

OPERATOR Motorola will receive \$2.88 billion from Iridium for operating and maintaining the Iridium system for five years. Iridium has the option to extend this contract two years for \$1.33 billion.

IRIDIUM ANTENNAS: Timing is critical as rivals move quickly to market

ager of Motorola's Space and System Technology Group. "In the grand scheme of things, it's not a big issue."

Still, Iridium can't afford any lengthy delays, since competitors are moving quickly to market. Most potent is Globalstar, a \$2.5 billion satellite-phone system backed by Loral Space & Communications Ltd. that expects to start operations late next year. (Globalstar says it, too, has been delayed by problems with the Delta II rocket.) Whoever is first to market could seize a lead in what analysts estimate could be a \$15 billion industry by 2005. "This is a very lucrative market opportunity," says Wolfgang Demisch, managing director at Bankers Trust.

TOUGH TALK. One person who wants to make sure Iridium doesn't miss the opportunity is Edward F. Staiano, who took a big pay cut last December to leave Motorola and become chief executive at the satellite system. Staiano is counting on his payoff from options on Iridium shares—once they trade publicly. Despite a 23-year career at Motorola, Staiano is talking tough. He's insisting that Motorola meet its supply agreement—or pay the penalties.

Staiano's hard line has to be popular with Iridium's other investors such as Sprint Corp. and the parent company of Bell Canada and Telecom Italia. The role is overshadowed by that of Motorola, which is Iridium's principal investor, holding about 25% of its stock, as well as the lead contractor for construction and operations.

McDonnell Douglas says it will charge Motorola tens of millions of dollars extra to compress its schedule and get all the satellites launched by the original deadline of June, 1998, according to sources. Motorola wants Iridium to pick up the additional costs, but the hard-nosed Staiano is having none of it, the sources say. McDonnell Douglas, Motorola, and Iridium won't comment.

It's in everybody's interest to get the satellite-phone system up and running by next September, so there's little doubt Motorola and Iridium will patch things up and agree on how to pay for meeting the launch deadline. "Our plan continues to be to launch the entire system on schedule," says Motorola's Hillis. But the cost may be big bucks and family strife.

By Peter Elstrom in Chicago

American Century

Morningstar Ratings

as of 1/31/97

DOMESTIC EQUITY FUNDS	OVERALL (out of 1,858)	1-YEAR (out of 2,990)	3-YEAR (out of 1,858)	5-YEAR (out of 1,072)
VALUE	★★★★★	★★★★★	★★★★★	—
INCOME & GROWTH	★★★★★	★★★★★	★★★★★	★★★★★
EQUITY GROWTH	★★★★	★★★★★	★★★★★	★★★★★
INTERNATIONAL EQUITY FUNDS	OVERALL (out of 393)	1-YEAR (out of 855)	3-YEAR (out of 393)	5-YEAR (out of 191)
INTERNATIONAL GROWTH	★★★★	★★★★	★★★	★★★★
TAXABLE BOND FUNDS	OVERALL (out of 1,104)	1-YEAR (out of 1,670)	3-YEAR (out of 1,104)	5-YEAR (out of 597)
GNMA	★★★★	★★★★★	★★★★★	★★★★★
MUNICIPAL BOND FUNDS	OVERALL (out of 1,129)	1-YEAR (out of 1,739)	3-YEAR (out of 1,129)	5-YEAR (out of 580)
SHORT TERM TAX EXEMPT	★★★★★	★★★★★	★★★★★	—
INTERMEDIATE TAX EXEMPT	★★★★	★★★★★	★★★★★	★★★★★

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AMERICAN
 CENTURY

COMMENTARY

By Greg Burns

WHAT PRICE THE SNAPPLE DEBACLE?

Quaker Oats Co.'s \$1.7 billion purchase of Snapple in late 1994 surely stands as one of the decade's worst acquisitions. With Snapple dragging it down, Quaker's stock stagnated while the Dow Jones industrial average moved up by roughly 70%. So now that Quaker is unloading the beverage brand, should its shareholders celebrate?

Mourning would be more appropriate. Like a death in the family, the Snapple debacle leaves behind a traumatized survivor, facing a difficult path to recovery. The price Quaker will pay for its soft-drink misadventure goes well beyond the \$1.4 billion in losses directly associated with the sale of Snapple to Triarc Cos. for just \$300 million. In addition, Quaker has absorbed \$100 million-plus in cash losses and charges related to Snapple. And since the deal damaged its balance sheet, Quaker's credit rating has suffered, raising its cost of capital.

Another cost: Quaker helped pay for the acquisition by selling off pet-food and candy businesses that gave it a larger scale, steady earnings, and international reach. It paid punishing capital-gains taxes on those sales. And its biggest divestiture has turned into a windfall for the buyer: H.J. Heinz Co. has more than doubled the operating profits of pet-food brands such as Kibbles 'n Bits that it bought from Quaker for \$725 million. "Heinz did phenomenally well," says analyst Nomi Ghez of Goldman, Sachs & Co. For Quaker, "the mistake was double," she says.

BRAIN DRAIN. The miscalculations have led to other problems. The Snapple trauma knocked the wind out of Quaker's once gung ho corporate culture. Layoffs related to the pet-food divestitures sent a bunch of talented managers packing, and Snapple's poor performance claimed still more casualties. The upshot: a severe brain drain, culminating in the loss of Chairman William D. Smithburg's onetime heir apparent,



Philip A. Marineau, to up-and-coming Dean Foods Co.

Smithburg's Snapple experience should be a warning to cocksure executives. Smithburg bought Snapple after a major triumph: building the Gatorade sports drink into a billion-dollar brand. He wanted to repeat his success, and that distracted him and his team from Snapple's problems. Smithburg discounted Snapple's woes—onerous bottler contracts, tired marketing programs, and a distribution network unsuited to a national brand—and overestimated his ability to sort them out. Then, under his management, tactical errors made the worst of a bad situation.

The whole affair has compromised

Smithburg's credibility and has raised doubts about Quaker's long-tenured board. While Smithburg's directors withheld his bonuses in 1995 and '96, that's the only public evidence of dissatisfaction. The board doubtless cut Smithburg slack because of his strong track record in the '80s. But Quaker today needs good judgment more than ever, and Smithburg is carrying a lot of baggage.

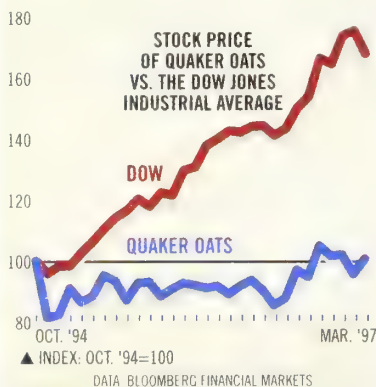
"TERRIBLE BLEMISH." That could influence his decision-making—in the wrong ways. "He has a terrible blemish on his record," says money-manager Donald A. Yacktman, a Quaker investor. "He's going to be cautious and tempered by this." Alternatively, he could err in another direction—trying to redeem himself with a drastic step such as spinning off the Gatorade unit—or shopping the entire company. Either way, the board needs to become a model of vigilance.

For now, Smithburg has some breathing room. Investors are relieved to be rid of Snapple—even at a bargain-basement price. Analysts have duly noted that Quaker stands to recoup some of its mammoth tax bill by selling at a loss. First-quarter earnings due out in late April should be solid. Quaker's U.S. Gatorade franchise remains unassailable. And it is gaining market share in key categories such as breakfast cereal.

When Smithburg faces shareholders at his annual meeting on May 14, count on him to emphasize the future. If he rejects the option of a major sale or spin-off, however, the most pressing issue facing the company becomes succession. Marineau's departure left a vacuum that could prove hard to fill. And as Quaker faces life after Snapple, it needs a plan for life after Smithburg—sooner rather than later.

Chicago-based correspondent Burns covers food companies.

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THE INTERNET

CYBERGIANTS SEE THE FUTURE —AND IT'S JACK AND JILL

Disney is the latest to bet that Net kids are where the money is

Some simple math: When an adult logs on to an online service, he or she spends—on average—an hour. The average kid spends three. Today, there are 4.1 million kids surfing the Net. By 2000, there will be 19.2 million. Kids, who spent \$307 million in 1996 on online services, will spend \$1.8 billion by 2002.

It adds up to a huge market opportunity for advertisers and online service companies. If the numbers—estimates from market researcher Jupiter Communications Co.—are right, the kiddie market will be a cyber gold mine in a few years. And that's why media and Web giants are scrambling to offer new kid-friendly sites.

SAMPLES. The king of all kiddie media, Walt Disney Co., brought the phenomenon into the spotlight on Mar. 31 when it introduced Disney's Daily Blast. The site, which is featured on the fast-growing Microsoft Network (MSN), will have games, stories, comic strips with old and new Disney cartoon characters, and current events that are tailored to preteens. The area will be free to the 1.5 million members of MSN during its first two years of operation, but kids who surf to the Net site or other services will pay \$4.95 per month or \$39.95 per year. "We think people are going to want to pay for the kinds of entertainment we can provide," says Jake Winebaum, president of Disney Online.

Kids who don't want to pay—or can't persuade their parents to cough up—will have plenty of other choices. Nickelodeon last summer launched a Web site called Natalie's Backseat Traveling Web Show. It includes games based on a Nickelodeon character named Natalie. Nickelodeon will try another TV tie-in with *Kids Choice*, an annual awards show to be hosted by Rosie O'Donnell this summer. Fox Broadcasting Co. is also planning a relaunch of its free Web site for kids,

which is currently serving as a promotional vehicle for its televised programs such as *Power Rangers Zeo*.

There are also ad-supported Web sites aimed at kids. Yahoo! Inc. has created a separate area that lists and rates kids-only areas on the Internet. It's



PLAYGROUNDS

AMERICA ONLINE On Kids Only, kids can search for homework help, send E-mail, and hang out in chat rooms. Included in \$19.95 fee.

DISNEY A new channel on the Microsoft Network, Daily Blast, will offer kids games, comics, and stories: \$4.95 per month or \$39.95 per year.

FOX TV www.foxkids.com Features Fox cartoons and kid shows.

NICKELODEON www.nick.com Natalie's Backseat Traveling Web Show lets kids keep up with the fictional character's cross-country move. Free.

YAHOO! www.yahooligans.com Yahoo!igans!, kid-friendly Web sites. Free.

DATA: COMPANY REPORTS; BUSINESS WEEK

free, but advertisements are plastered all over it in hopes of capturing a share of the estimated \$150 billion in chasing power that children control. Robert McHugh, senior producer of Yahoo!igans! area, says that advertisers there have noticed a high "click-through" rate—meaning that kids not only see the ads but click on them to visit the advertised sites.

Game makers take yet another approach. Starwave Corp.—which is forging closer ties with Disney (NYSE: 51)—plans a renewed push for its Castle Infinity service. For \$39.95, kids get a CD-ROM game that connects them to a Web site where they and other kids roam a virtual castle to save dinosaurs.

Castle Infinity has slightly fewer than 10,000 subscribers, but

the company says it offers more than two online activities that kids crave: music, games and kid-to-kid chat.

HELP. The current leader in online services for children is America Online.

Since 1994, the company has offered a Kids Only area featuring

homework help, games, and online magazines as well as the usual fare of software, games, and chat rooms.

Included as part of the \$19.95 monthly service, the area gets about 1 million 8- to 12-year-old visitors monthly.

Disney gave AOL first crack at hosting Daily Blast. But, says Jennings, vice-president for programming for AOL networks, "we felt we had a good mix already." AOL still has partnerships with other media giants such as Disney rival Viacom Inc.'s Nickelodeon unit, for other offerings, says Jennings.

Not everyone is rushing to reach kids online. Profits are still years away—and that's too long a wait for some companies. Richardson (The software maker 7th Level Inc. recently shelved its plans for Kids' World, an online service that would have connected children to each other in a virtual world filled with characters from CD-ROMs. Given the number of companies jumping into the kiddie cyberspace market, though, expect one of them to land on Kids' World soon.

By Paul M. Eng in New York, with bureau reports

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MEDIA

THE BROADCAST WINNERS ARE...

Who the Supreme Court's "must-carry" rule helps most

For Lowell "Bud" Paxson, chairman and chief executive of Paxson Communications Corp., it was a Supreme Court decision worth celebrating. The night after the high court upheld so-called must-carry broadcast rules on Mar. 31, Paxson, who controls 49 independent television stations, rented a ballroom at the posh Four Seasons Hotel in New York, hired a band, and flew in from Florida to party with 150 broadcasters and programmers. "I'm the happiest man in America," he says with a laugh.

Paxson has plenty of company. The Supreme Court's decision—a stunning reversal of what experts had expected—upheld a provision of a 1992 cable law that requires cable operators to carry local broadcast stations. That's good for the big networks. But for smaller fry, such as Paxson and Barry Diller's HSN Inc.—as well as fledgling



broadcast networks such as UPN, a joint venture of Viacom and Chris-Craft Industries, and Time Warner's WB—it's a spectacular victory. Without the rule, these smaller operators could have seen their signals bumped. It's also a big relief to the nation's 351 public television stations, which will now be guaranteed cable slots.

BOLDER STRATEGIES. No sooner did the ruling come down than Paxson's stock soared 19%, to 10%. Gabelli & Co. analyst Laura Salerno Linehan predicts that Paxson's annual revenues, \$165 million in 1996, could jump by \$70 million over the next year.

With the must-carry ruling in place, Paxson can now undertake much bolder growth strategies. Today, his stations, which reach nearly 64% of U.S. house-

DILLER'S HSN: Relief at public stations, UPN, and the WB, too

holds, mostly carry infomercials. But Paxson says the company's talking to movie studios, syndicators, and cable and broadcast networks about buying new programming. Paxson could also sell stations, which are now instantly more valuable, though he says isn't interested in doing so.

Diller, on the other hand, has concrete plans for developing a collection of stations. His team has been hoping to move away from home shopping programs on HSN's 12 broadcast outlets and instead launch shows focusing on local news, personality, and culture. Says Doug Binzak, executive vice-president for Silver King Communications Inc., HSN's broadcast unit: "It's like ending up with a beachfront lot. And we can build whatever hotel we want."

Must-carry could also turn out to be a key factor in the looming battle with Rupert Murdoch's News Corp., which could be forced to carry all local channels on its new satellite system. Murdoch would be likely to fight that. For now, small broadcasters have reason to celebrate.

By Amy Barrett in Washington

RETAILING

MOM AND POP FIGHT BACK

Hardware co-ops merge to battle giants like Home Depot

Curt Madson's family has operated the Coast to Coast hardware store in Barron, Wis., for 20 years. The 3,000 residents are used to friendly service and a selection of 14,000 items, from snowblowers to drill bits. But many residents now drive an hour to the outskirts of Minneapolis to find bargains at Home Depot. "They buy grills by the trailer load," says Madson. "I buy them by the single unit."

Eager to even the odds, Madson joined Coast to Coast hardware-store owners around the nation voting for the merger of the No. 2 and No. 3 nonprofit hardware cooperative buying groups, which was officially approved on Apr. 1. The marriage of ServiStar Coast to Coast Corp. and Cotter & Co., wholesaler to the True Value chain, creates a

\$4.5 billion colossus that gives 10,500 independent hardware stores more heft to compete with the so-called big-box stores.

The expanding co-ops may be the last chance for stores such as Madson's. The National Retail Hardware Assn. says sales at independent hardware stores will grow 3.5% annually over the next five years, while superstore sales will climb more than 5%. ServiStar CEO Paul E. Pentz hopes to change that by giving his members new buying clout. As president of TruServe, the merged co-op, Pentz hopes to reduce annual purchasing costs by 10%, or \$50 million, through such economies as cutting the number of distribution centers from 23 to 18.

Those savings will translate into lower prices for the Mom and Pops. But that may not be enough in the long run. "Joining forces is a step in the



TICKING CLOCK: The merger may be the small stores' last chance

right direction," says Asma Usmani, an analyst at brokerage Edward D. Jones. But, she adds, "the big-box retailers are the ones that are picking up market share." The 512-store leader, Home Depot Inc., continues to expand rapidly. It had 1996 revenues of \$19.5 billion—nearly as much as all the Mom and Pop

combined. And it will add 111 stores this year, says president Arthur M. Blank. No. 2 Lowe's Cos. plans to open more than 20 new stores to reach 600 by 2000. In addition to the growing big-box store threat, the TruServe members will also be fighting to share with shops that are aligned with Ace Hardware Corp., now the No. 1 co-op. All in all, it's a grim outlook for that home hardware store around the corner.

By Susan Jacks and Tim Smart
New Haven

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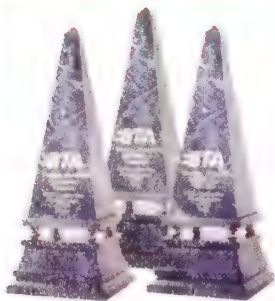
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EDITED BY KELLEY HOLLAND

WHEN YOU WISH ON A STARWAVE

IN DOUBT, BUY 'EM OUT. Rupert Murdoch and his eyeing investments in Internet ventures, Walt Disney has decided to go first. He is buying into Paul Allen's Starwave in a deal that could give the entertainment conglomerate full control of the new-media content company that runs nine news- and entertainment-related Web sites. Paying an estimated \$10 million, Disney is getting about a 5% stake in Starwave, with options to buy Allen's controlling stake in five years. Disney will take over Starwave's operations and control the seven-person board. The two companies are already in busi-

ness together: Starwave and Disney's ESPN unit jointly created ESPNET SportsZone. Disney's ABC unit is also in league with Starwave: Along with America Online and Netscape Communications, they're planning to launch ABCNEWS.com, a 24-hour news service.

A TEXAS BARBECUE OF KAISER?

KAISER PERMANENTE, ONE OF the nation's largest health-maintenance organizations, could soon face a crackdown in Texas, where it has about 130,000 members. Attorney General Dan Morales says there are "sufficient grounds" for revoking the HMO's license. A Texas Insurance Dept. report critical of the HMO's care was recently sealed after Kaiser won a state court order. But a state insurance official testified on Apr. 1 that state auditors are alarmed by complaints the agency has received about Kaiser's emergency care and the number of wrongful-death suits against the HMO. Kaiser calls the sealed report "very shoddy."

ANOTHER REORG AT DIGITAL

THE RETURN TO HEALTHY growth and robust profits is still not happening at Digital Equipment. Analysts now say earnings for the quarter just ended should be just \$37 million, a 70% drop from a year ago, signaling Digital's third lackluster quarter in a row. Revenue should come in around \$3.3 billion, down 9% from a year ago. The company is trying yet another reorganization. Bruce Clafflin will now head up a streamlined sales and marketing organization. But meanwhile, sales of Digital's Alpha computers are limping along at single-digit growth rates, despite discounts that are hurting profits, distributors say.

HEADLINER: PRINCE ALWALEED

APPLE'S PRINCE CHARMING

After shunning high-tech stocks during their years of white-hot growth, Saudi Prince Alwaleed bin Talal bin Abdulaziz al Saud has taken an interest in Apple Computer. On Apr. 1, he announced that he had quietly bought \$115 million of Apple stock over the preceding month, giving him a 5%-plus stake. He indicates he may buy more, too.

The prince has done very well with out-of-favor companies: He has made over \$3 billion on Citicorp shares bought in 1991, and stakes in Euro Disney and Canary Wharf have paid off big. He may already be

ahead on Apple: On Mar. 27, Oracle CEO Larry Ellison told a newspaper he was mulling a bid for the company. That sent Apple stock up 1%, to 18%. Alwaleed says the two billionnaires have not talked, but he notes, "Ellison is respected, and I admire him. But when I began picking up Apple, I didn't even know he was going to bid."

The prince, 40, is typically a passive investor. And as part-owner of the Four Seasons hotel chain, he's busy building hotels in nearly a dozen Arab cities.

By Peter Burrows and John Rossant



CLOSING BELL

BAD KARMA

Founders named Shiva for Hindu god of destruction and rebirth. They could use a lot of the latter. On Mar. 31, Shiva warned that for the second quarter in a row it will post a "substantial operating loss." It blames falling prices for remote access gear and a write-down of outdated equipment. Shiva shares fell 25% in the news—despite reports that Shiva's partner, Nortel, will pay royalties for Shiva technology. Some investors fear the company may not remain independent. Shiva says it has no plans to get hitched.



DOW AND GE PLAY CLOAK-AND-DAGGER

IT'S SPY VS. SPY IN THE AUTO biz again. Just three months after General Motors and Volkswagen reached a \$1.1 billion settlement of their espionage dispute, Dow Chemical is suing General Electric over alleged theft of trade secrets. In a suit filed on Apr. 1, Dow says GE lured away Dow employees to get at the chemical giant's auto-technology and engineering-plastics trade secrets. Nonsense, says a GE spokesman. Nonetheless, Circuit Court Judge Edward Sosnick is ordering GE to return any Dow documents it may have obtained from former Dow employees.

AOL MAY BE WOOING COMPUSERVE

AMERICA ONLINE SHARES GOT a boost on Apr. 1 when speculation arose that the compa-

ny may be weighing a bid for rival CompuServe. AOL's stock was up 7.6%, to \$45.75, while CompuServe shares jumped 12%, to \$11. AOL declined to comment. CompuServe said the company is in "external discussions" regarding a deal. Buying CompuServe would add much-needed network capacity to AOL's strained system. Still, there could be big hurdles to any deal, not least the difficulty of combining the two companies' networks and customer bases.

ET CETERA...

- SBC Communications completed its \$17 billion merger with Pacific Telesis.
- Peter Barton, head of TCI's Liberty Media unit, is leaving the company.
- The FCC auctioned radio licenses for \$173 million to CD Radio and American Mobile.
- No hurry: Federal Express has a new, lower-cost, three-day service.

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BRITAIN

BRITAIN'S BOOM

On the eve of national elections, Britain is on a roll. Will it last?

In the London village of Belsize Park stands the shell of a former church known as Lyndhurst Hall. Built in 1884 at the height of the British Empire, it once housed a missionary school linked to legendary explorer Dr. David Livingstone. But as its congregation shrank, the structure fell into disrepair and was abandoned. Then, a group led by Beatles producer George Martin and backed by Japan's Pioneer Electronic Corp. spent \$25 million to transform the relic into Air Studios, a world-class temple of sound at the center of Britain's \$4 billion music industry.

The old church is a fitting symbol of Britain's resurgence from economic decline. After almost two decades of restructuring, Britain is back. Its 3%-plus annual gross domestic product growth and 2.5% inflation are the envy of neighbors across the Channel. Its financial sector accounts for 19% of GDP, and the service economy is a job machine, pushing unemployment to 6.2%, half that of France and a third less than Germany's. "If you compare [Britain] against Europe, it is doing well in all measures: growth, competitiveness, and unemployment," says Bruce Kasman of J.P. Morgan & Co. in London.

Such is the economic legacy of 18 years of Conservative Party rule. If his roughly 20-point lead in the polls

is to be believed, Labor Party leader Tony Blair will inherit Britain's boom as his party sweeps to victory in general elections on May 1. Oddly, the Tories under John Major have been unable to capitalize on the economic recovery. Blair is ahead because there is a widespread sense that, after their long tenure, the ruling Conservatives have grown tired, increasingly ideological, and somewhat sleazy. Hardly a week passes without a Tory member of Parliament being accused of sexual or financial peccadilloes. "The Tories lack direction and purpose," said Rupert Murdoch's *Sun* newspaper, endorsing Blair on Mar. 18. "The country is sick and tired of them."

CENTRIST. The big question is whether Blair will reverse Conservative reforms. A Tory poster warns: "Britain is booming. Don't let Labor blow it." Although Blair is finessing his agenda to hang on to his supporters, the likelihood is that he won't tamper with his predecessors' economic policies. He has worked too hard to get where he is now.

Already, the 43-year-old has proved himself a skilled leader. He has done a masterful job at making Labor, long unelectable, an acceptable centrist alternative. He has largely uncoupled the party from the unions, themselves far less threatening than they were a decade or two ago. Labor won't roll back privatizations, increase income tax-



BORN AGAIN: A church from days of Empire is now a recording hall. Blair's vision for Britain is much like Bill Clinton's for America. He wants Britain to be a global leader in the high-tech age. He talks a good game about partnerships with business, the need for lifelong training, and for making sure the have-nots have access to information technology. He is pledging money to improve primary schools and will probably offer tax incentives for investment.

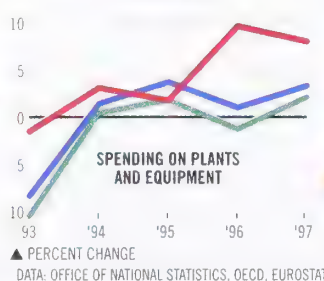
Beyond that, Blair is careful about making commitments. He is determined not to make promises he can't keep. He wants to avoid being tarred as a tax-and-spender. Sound economic management would also give Blair the chance to carry out dream projects in a second term.

On the other hand, Blair is sure to soften some of Thatcherism's jagged

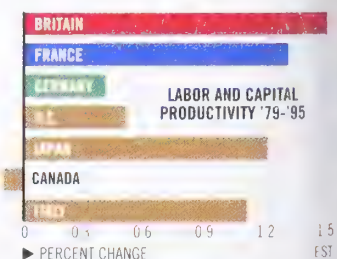
GROWTH IS STEADY...



BUSINESS INVESTMENT IS HEALTHY...



AND THE ECONOMY IS BECOMING MORE PRODUCTIVE





His most controversial proposal is a windfall-profits tax of up to \$8 billion on privatized utilities. The money would fund a jobs program to get 250,000 people off welfare. Labor would introduce a minimum wage. And Blair is pledging to strengthen the unions' hand at the bargaining table with employers.

Still, there is no question of going back to the bad old days. Using such phrases as "fiscal prudence," Blair sees his task as building on—not dismantling—the revolution launched by for-

Prime Minister Margaret Thatcher. In any sense, Blair could be a lock in Labor, offering for Tory free-market gains, much as Clinton has sold the virtues of shrinking government to U.S. Democrats.

How does Blair's game plan with business leaders? Most executives are staying on the fence between Labor and the Tories. Behind the scenes, Labor officials have been meeting with corporate executives, who seem relaxed about the election. Whoever wins, says Adair Turner of the Confederation of British Industry, there should be "a few [more] years of 3% growth with low inflation. It is an environment business likes." In fact, if Labor wins on May 1, Blair may have to pour cold water on the economy, which could overheat thanks to the Tories' loose monetary and fiscal policies. Champagne sales have hit a

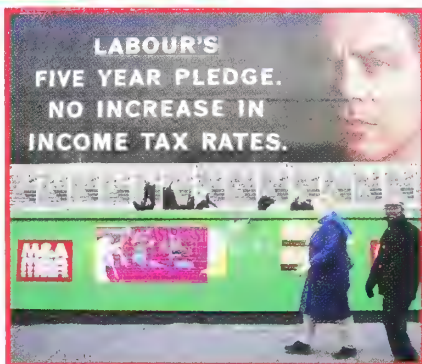
six-year high as the Tories have tried to create a "feel-good" factor to improve their election chances. Blair may have to ratchet up interest rates, while hikes in taxes other than those on personal income are also possible, no matter who wins. That could cool the stock market and hold growth down to 2.5% in 1998.

Even if Blair has to brake the economy a bit, he will need to be careful lest he damage Britain's thriving corporate sector. Its large companies now rank as world-beaters in key growth industries



MAJOR Despite the hot economy, the Tories trail by 20 points in the polls

CHALLENGER BLAIR: *If Labor sweeps to victory, it is unlikely to dismantle Thatcherite reforms*



such as finance, air travel, telecommunications, and pharmaceuticals. They are moving aggressively into overseas markets and attracting management talent from the U.S., Asia, and the Continent. Investment has poured in from abroad, too, boosting productivity.

Although critics charge that Britain's economic success is due mostly to its low wage rates, the fact is the corporate sector is in fighting trim after massive shakeups under the Tories. Britain has 19 of Europe's 50 biggest corporations and the largest corps of global companies after the U.S. and Japan. The market capitalization of companies on the London Stock Exchange is \$1.7 trillion. Only the U.S. and Japan have larger market caps. Blair doesn't want to slow Britain's global giants down.

"GOLDEN EGG." One testing ground could be the City of London. A few months ago, Labor threatened to slap the City with new regulations, including restrictions on takeovers. Last year, London investment banks brought in a record \$1.8 billion in fees for mergers. But recently, Labor has reassured the financial community that "it doesn't want to kill the goose that lays the golden egg," says a senior banker.

On the eve of the election, what can be seen in Britain is a three-tiered economy: accelerating highfliers, decently paying global manufacturers, and marginal, low-paying companies. The hottest growth is coming from strong, home-grown industries such as finance, media, and pharmaceuticals, where giants such as Glaxo Wellcome, SmithKline Beecham, and Zeneca Group spend billions each year on research and development. But these industries don't offer enough jobs to keep everyone employed. So Britain must continue to attract foreign capital to

put people to work—especially in traditional manufacturing regions. Blair is likely to make this a priority.

Still, not a few European leaders would long to be in the shoes of the next Prime Minister. Britain's political leaders have paid the price for economic change that their Continental counterparts are still resisting. Despite the cyclical ups and downs that are sure to come, Britain's economic outlook is more hopeful than it has been in 30 years.

By Stanley Reed and Julia Flynn, with Heidi Dawley, in London



JAPAN

UNLOCKING JAPAN—AT LAST?

It's no stampede, but foreign investment is on the rise

Stay away. For years, that has been the world's perception of Japan's policy on outside investment. Critics in the U.S. and Europe said the Japanese government barred the way to any foreign companies that wanted stakes in Japanese corporations or Japanese facilities of their own. There have always been exceptions, of course, and the Japanese love to point to IBM in Japan or the McDonald's Corp. outlets that have sprouted in Tokyo. But the feeling of not being welcome has been largely warranted. In 1995, for example, foreign direct investment in Japan was a mere \$3.1 billion. Compare that with the \$68 billion in investments that foreigners made in the U.S. last year,

and you see what a fortress Japan has been.

Yet there are signs that the door is opening. Although not all the numbers are in, it seems overall foreign investment in Japan may have jumped more than 50% in 1996. Just in mergers and acquisitions, foreigners did \$2.5 billion worth of deals in 1996, well ahead of 1995's \$585 million, according to KPMG Corporate Finance & Management Consulting. The deals involve big names, too—food-processing plants by Dole Food, Glaxo Wellcome's full acquisition of its local joint venture, and moves by GE Capital to get into consumer finance (table).

The spurt of activity undercuts the faddish notion that foreign companies

are bypassing Japan to invest in seemingly more promising Asian markets. If the money keeps coming in, Japan's reputation as a rough place to invest could start changing.

True, this is no tidal wave. A recent paper by the American Chamber of Commerce enumerates a host of remaining obstacles to investing in Japan. But there's no denying that some progress is being made, and for good reason. "Foreign companies should go



us about increasing their stake in Japanese economy," says Jesper vice-president and head of research P. Morgan Securities Asia Ltd. in o. For one thing, there are signs of pound in the long moribund economy which grew by 3.6% last year. As world's second-largest economy, n boasts per capita purchasing power most twice that of Hong Kong and mes that of China.

RDABILITY. What's more, the weak- g yen, combined with plunges in estate and stock prices, are ng Japanese assets much more dable. Commercial land prices kyko have plunged from a peak out \$285,000 per square meter 90 to about \$57,000 now. Last th, Pacific Century Group, ed by the son of Hong Kong on Li Ka-sheng, stunned the nese by forking over \$707 on for a prime plot near Tokyo on. Foreigners are also pecting on the stock market. of last year's 10 largest ctions by foreigners were of d companies. This included l Motor Co.'s \$430 million pur- e of an additional 8.9% of da Motor Corp., boosting its e to 33.4%.

oreigners are also benefiting restructuring moves by local anies. Both ball-bearing mak- inebea Co. and trading giant hu Corp., for example, have ed the consumer lending busi- , which has little to do with e core operations. They sold their it companies to General Electric tal Services Inc., which has spent billion on such deals in Japan in past two years. "The consumer cred- iness is very attractive in Japan," e Rone Baldwin, president of GE tal Japan. Baldwin notes that Japan is the second-largest consumer credit market in the world

and boasts among the lowest delin- quency rates.

The investment action isn't limited to the big boys. Last year, Menlo Park (Calif.) software designer Intuit Inc. paid \$52 million in stock for Milkyway, a financial software specialist. Then, in February, Intuit put up an additional \$39 million to acquire Nihon Mikon Co., which sells small-business accounting software.

The Milkyway and Nihon Mikon sell- offs represent a new trend at small

many foreign investors try joint ven- tures. DirectTV International Inc., a sub- sidiary of Hughes Electronics Corp., holds 35% of a six-company consortium that plans to beam satellite broadcasts to Japanese viewers. Declining to di- vulge the size of the investment, DirectTV Japan Vice-Chairman Joel Sil- verstein says: "It's a big bite. That's why there are six partners." They in- clude Japanese satellite operator Space Communications Corp. and video rental chain Culture Convenience Club.

Also trying a joint venture is Sports Authority, the Fort Laud- erdale-based chain of sporting- goods megastores. The company holds 51% of a partnership with Japanese retailer Jusco Co. and has opened three Sports Authority stores in Japan. "The Japanese consumer is madly, unequivocally in love with what the U.S. con- sumer is using in fitness apparel and sporting goods," says Jack A. Smith, chief executive of Sports Authority. Another 22 stores are planned by 1999.

A START. A big factor in the rise in activity has been the Japanese government. Eager to accelerate growth and help industries re- structure, the government last year said it would welcome more M&A activity, even by foreigners. A few years earlier, it helped es- tablish the Foreign Investment in Japan Development Corp. (FIND) to help newcomers get established.

During the just ended fiscal year, FIND helped 70 such companies, says President Keiji Natori. "The number is gradually increasing," he says.

The upshot could be more exports to Japan and some relief in the trade wars with the U.S. and Europe. Data devel- oped by Dennis Encarnation, a professor at the center for business and govern- ment at Harvard University's Kennedy School of Government, show a correla- tion between foreign direct investment and trade. More Japanese-owned fac- tories in the U.S., for example, mean more Japanese exports to the U.S. of parts, materials, and finished products. Similarly, U.S.-owned plants in Japan will import U.S.-made goods.

Of course, if Japan wants to attract a lot more investment, it must still dereg- ulate the economy, revise tax and land policies, and provide incentives. But even failing this, more foreign companies are taking the plunge. That's good for investors, and good for Japan.

By Robert Neff in Tokyo, with bu- reau reports

DOING DEALS IN JAPAN

GLAXO WELLCOME Buys remaining 50% of Nippon Glaxo affiliate for \$537 million

FORD Picks up an additional 9% of Mazda for \$430 million

BASF German drugmaker buys 51% of Hokuriku Seiyaku for \$294 million

GRANDE GROUP Singapore firm acquires 70% of Nakamichi for \$286 million

GE CAPITAL Acquires 80% of Marubeni Car System, an auto-loan business, for \$80 million

SEMI-TECH GROUP Hong Kong high-tech company pays \$167 million for an extra 11% of Akai Electric

BOEHRINGER INGELHEIM German company pays \$71 million for 9% of SS Pharmaceutical

AMERSHAM INTERNATIONAL British drug- maker gets 30% of Nihon Medipysics for \$67 million

DATA: KPMG PEAT MARWICK, BUSINESS WEEK

Japanese companies, says Nicholas E. Benes, senior managing director at investment banker Kamakura, which brokered the deals. Japanese entrepreneurs are getting frustrated with the ordeal of taking their companies public. That's a problem, since stock offerings are the best way to get a payback. "So an M&A deal [with a foreign company] looks attractive if the price is right and the acquirer is sexy and can give you the po- tential to learn," says Benes.

Where acquisitions don't make sense,

ACTION

ger to accelerate growth, the government is welcoming more M&A activity, en by foreigners



CHINA

GOING TOE TO TOE WITH BIG BLUE AND COMPAQ

Suddenly, Chinese computer makers are holding their own

When it came to shopping for a personal computer, Chinese consumers have long faced two options: The overpriced, old-generation offerings of domestic manufacturers or the latest, souped-up U.S. brands, often smuggled in by shady distributors. But when Intel Corp. launched its new MMX multimedia chip at road shows in Beijing and Shanghai in late March, it was a different story. Eight local producers

cheaper, and just as up-to-date, as foreign ones. And they're making great strides in distribution and service.

More is at stake than a share of the world's fastest-growing computer market, where sales are expected to zoom from \$2.1 billion last year to \$8.7 billion by 2000. The comeback of China's top computer companies shows that Chinese industry has a chance of making it if Beijing opens the door to imports, as



showed MMX-based PCs, some offering videoconferencing over standard telephone lines, compared with four American brands. The Chinese PCs are "very advanced systems and very competitive with multinationals," says James W. Jarrett, head of Intel's China operations.

After years of getting outclassed and outmuscled in their own market, Chinese companies are starting to bridge the once enormous gap with the likes of Compaq, IBM, and AST. Surprisingly, the reason has little to do with industrial policies cooked up by Beijing bureaucrats. Instead, Legend Group, Beijing Founder Electronics, China Great Wall Computer Group, and other products of Beijing's Haidian district, an electronics hotbed of some 6,000 companies, are snapping out models that often are

TESTING LEGENDS

In less than two years, Legend has gone from No. 6 to No. 3, behind IBM and Compaq

Few have made bigger strides than Legend. In less than two years, the \$928 million company has come from No. 6 in China to a spot close to market leaders IBM and Compaq. Sales were up 80%, to 140,000 units, last year, according to market research firm China Research Corp. As the main partner for AST, a pioneer of the China market, Legend helped set up 26 branches around China with nearly 1,000 sales and services agencies. "From this experience, we also learned about management and marketing," says Legend executive Wang Yan.

Another advantage is that Legend early on ventured overseas. It ships motherboards, the circuit cards that go in PCs, to 26 countries. And in 1993, it became the first Chinese PC maker to open a design center in California's Silicon Valley. It pays Microsoft Corp. \$12 million annually to load most PCs with the Chinese version of Windows 95. As a result, says Beijing-based analyst Robert Warner of China Research, "they've translated what's going on in technology abroad and brought it to China, where they understand the market."

TUMBLING. Other players are relying heavily on the huge technical resources at home. Controlled by Beijing University, Founder recruits top graduates from its 300-person research institute, which is expected to add 100 new employees annually for the next five years. Since

CHINA'S PC CHAMPIONS

BEIJING FOUNDER ELECTRONICS

The leader in Chinese software is using its research strengths to build a PC line

LEGEND GROUP With its strong distribution and international experience, it may replace IBM this year as No. 1 in PC sales in China

STONE An electronics pioneer in China, the 13-year-old company has ties with Compaq and Mitsui

CHINA GREAT WALL COMPUTER

Bouncing back, thanks to three PC joint ventures with IBM and another in videoconferencing with Intel

DATA BUSINESS WEEK

diversifying from Chinese-language software into PCs in late 1995, Founder has zoomed to the No. 8 spot and plans to make 100,000 units this year.

It's still far from certain who the ultimate winners will be. Great Wall, for example, was the leading computer maker in 1990 but since has tumbled to No. 7. The competition will only get more brutal. Some 40% of PCs sold in China are made by small assemblers of unbranded machines. IBM and Compaq are building bigger factories inside China. If China joins the WTO, legal imports could flood in from Taiwan, South Korea, and Malaysia. Yet analysts such as Warner think players like Legend and Founder will still prove strong enough to dominate the market. It's a lesson Beijing should study as it weighs the merits of opening its markets.

By Dexter Roberts in Beijing, with Bruce Einhorn in Hong Kong



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New York

EDITED BY JOHN TEMPLEMAN

DON'T LOOK NOW, SINGAPORE, BUT MALAYSIA IS GAINING ON YOU

For years, Senior Minister Lee Kuan Yew of Singapore has tormented political opponents and journalists with lectures and libel writs. Now he seems to have met his match. Malaysia's threat to freeze bilateral ties in retaliation for insulting remarks he made about crime in its Johor state, adding Singapore, forced Lee to apologize on Mar. 29. "[We] are not going to turn the other cheek again and again," says Abdul Aznam Yusof, deputy director at Kuala Lumpur's Institute of Strategic & International Studies.

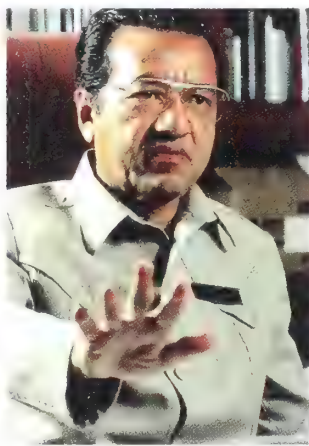
The episode shows how Southeast Asia's economic balance of power is shifting. Singapore has long been the main magnet for foreign investment and the region's high-tech leader. Its neighbors are catching up, none more aggressively than Malaysia. Prime Minister Mahathir Mohamad has an ambitious agenda to propel it into the big leagues and surpass Singapore as the region's economic hub.

Mahathir will likely accelerate his crusade. Boldened by years of 8% economic growth rates, he is determined to undo the British colonial legacies that have long enriched Singapore at Malaysia's expense. Over a quarter of exports still ship through Singapore and Malaysian companies trade on its stock exchange, making up 40% of daily volume.

Malaysia's catch-up is costly. Mahathir is pouring more than \$12 billion into grooming Kuala Lumpur. The capital will get a bigger sea port and a new international airport. And Mahathir is creating a 31-mile-long high-tech zone, the Multimedia Supercorridor, between the city and the airport. Financial reforms, too, to attract technology companies with a new NASDAQ-like over-the-counter market designed for them. But Mahathir's efforts are paying off. Microsoft Corp., for instance, last year agreed to put its regional headquarters in the high-tech corridor. Malaysia has snared Dell Computer

Corp. and Packard Bell NEC Inc., as well. "In four or five years' time, K. L. will be *the* place," says Singapore-based Jardine Fleming senior economist Rajeev Malik.

Malaysia's growing challenge puts Singapore in a bind. Unlike Hong Kong, which has China as a backyard, it has no hinterland. The country, with 70% of ethnic Chinese in its population, is an island "in a Malay sea," frets one Singapore government official. Besides, ever since Singapore left the Federation of Malaysia in 1965, Lee's frequent zingers have spread distrust in Asia.



MAHATHIR: Payback time?

MORE SPATS. Big disputes are something the region's players, grouped with Malaysia and Singapore inside the Association of Southeast Asian Nations (ASEAN), can ill afford. Malaysia and other countries need investments from Singaporean companies. Meantime, Singapore's government is encouraging companies to diversify abroad, because it wants regional investments in manufacturing, shipping, property, and finance to fuel slowing growth.

Unfortunately, growing interdependence may lead to more spats, not fewer. Noninterference in other members' affairs worked fine as a guidepost when ASEAN was a glorified discussion group. But it is becoming untenable as competition between members heats up as ASEAN moves to dismantle trade barriers and form a free trade area by 2003. "We're going to see more and more friction," says Jusuf Wanandi, chairman of Jakarta's Center for Strategic & International Studies.

Certainly, Mahathir can and will exact his political price for Lee's gaffe. He could use it to win financial concessions on projects such as a high-speed rail link between Singapore and Kuala Lumpur or new crossings from Singapore to Johor, the state Lee maligned. Having gained the upper hand, the Malaysians are in no hurry to forgive and forget.

By Bruce Einhorn in Hong Kong

GLOBAL WRAPUP

ISRAEL MAY LOSE ARAB GAS

A \$600 million natural gas project could run afoul of the new Arab league boycott of Israel imposed on Mar. 31. The Egyptian government gave Amoco Corp. of the U.S. and Italy's Agip permission to negotiate directly with Israel Electric Corp. to sell natural gas from fields they are developing in Egypt's Nile Delta. But Israeli energy industry officials say the boycott, sparked by renewed tensions in the Mideast peace process, is putting the project in doubt.

Overall trade between Israel and its Arab neighbors has been small but grew fast last year when peace hopes rose. Israel's exports to Egypt, for example, doubled to \$57 million. Israeli executives now fear that future growth will suffer even if the boycott is lifted.

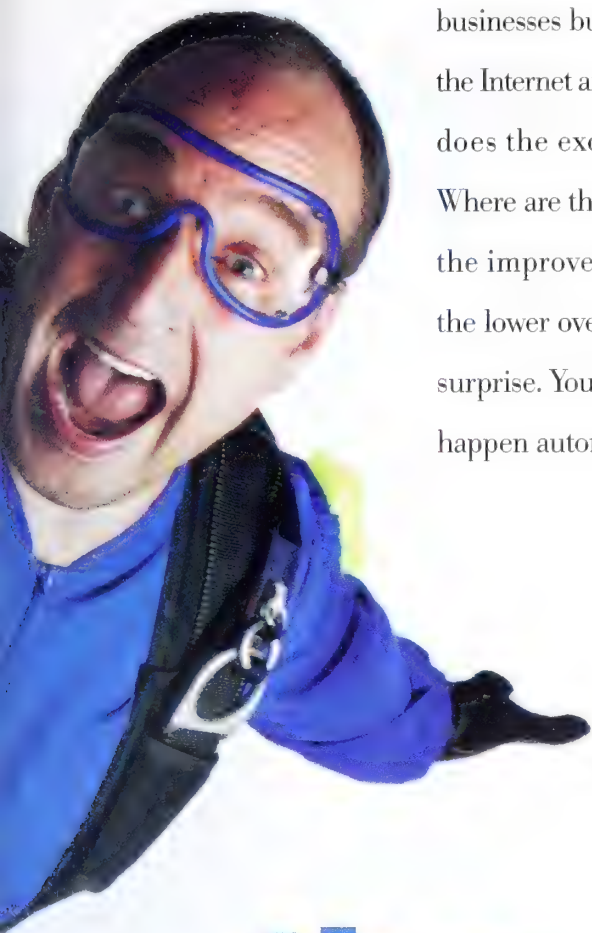
INDIAN BUDGET RESCUE

► India's latest budget, which received rave reviews from domestic business and foreign investors, may survive even if the United Front coalition that authored it goes down

in flames. The coalition has been living on borrowed time since Mar. 31, when the Congress Party withdrew its support.

The United Front faces a confidence motion on Apr. 11, 10 days before the budget debate was originally scheduled to begin. But so popular are the budget proposals—to lower income and corporate taxes, raise foreign investment quotas, and cut import tariffs—that the Congress Party may cooperate to get it on the statute books before the vote that is expected to push the coalition from power.





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Cover Story



GULFSTREAM



Gulfstream was just another deal to Ted Forstmann—until it nearly went bust. Here's how he seized control, reaped big profits, and launched a hot jet

It is a late fall afternoon in 1996, and a shoeless Theodore J. Forstmann is stretched out in a leather chair aboard his luxurious private jet, kneading his brow with both hands in a futile attempt to dissipate a splitting headache.

Forstmann flies a Gulfstream IV, the Rolls-Royce of corporate aviation. But his plane is more than just a mogul's plaything. Forstmann, best known as a Wall Street dealmaker, is chairman of the company that made it: Gulfstream Aerospace Corp. Exhausted by two days of glad-handing at an aircraft convention in Orlando, Forstmann is racing home to New York to talk about Gulfstream on CNN at 6:10 p.m.

For a man who made his name buying and selling companies, Teddy Forstmann of late has given a convincing performance as a corporate manager. Virtually bankrupt in 1993, Gulfstream recently reported record earnings of \$47 million for 1996, up 63% over the preceding year. But this isn't the half of Gulfstream's comeback story. Helped by new management and a revival in the market for corporate aircraft, the Savannah (Ga.)-based company has secured its renascent prosperity through the end of the century by amassing a \$3 billion backlog of orders. At a time when even giant McDonnell Douglas Corp. found it was too small to go it alone, Gulfstream is thriving as the last independent jetmaker in North America not named Boeing.

Most of the company's back orders are for a pricey new superplane, the Gulfstream V (G V). Capable of flying nonstop from New York to Tokyo, the G V is the world's first "ultra-long-distance" corporate jet. Four years in development at a cost of \$800 million, the G V is just now reaching the marketplace. Gulf-

CEO FORSTMANN *Selling the company was an option, but "it would have torn my insides out"*

M'S PILOT

stream delivered the first G V to Seagram Co. on Dec. 31 and is cranking out the \$36 million jets at the rate of nearly two a month.

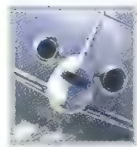
Gulfstream's revival is a source of great satisfaction to Forstmann, 57. "I don't have a talent for running companies, I have a talent for Gulfstream," says Forstmann, who, as the dominant partner of Forstmann Little & Co., helped invent the leveraged buyout. "Running Gulfstream has been the best experience of my business life. By far."

His feelings for Gulfstream are the product of anguish as much as accomplishment, for before saving the company, he and his associates very nearly destroyed it. When Forstmann Little acquired Gulfstream in 1990 for \$850 million, it applied its standard financing formula: a mountain of debt—\$750 million—supported by a \$100 million splinter of equity. Overleveraged and mismanaged, the jetmaker

Cover Story

Even many of Forstmann's staunchest supporters urged him to cut his losses and sell the company. But he could not bring himself to take what would have amounted to a loss of at least \$300 million. "It would have torn my insides out," he says now. More than Forstmann's strapping ego was at stake: His firm's ability to raise funds for future acquisitions would have been impaired, perhaps severely, by a big loss.

Instead of pulling his rip cord, Forstmann shouldered Gulfstream's chief executive aside and seized the controls himself—despite the fact that he had never actually run a company before. "My advice was, 'Don't do it,'" recalls Robert S. Strauss, the well-connected Washington lawyer who is a Gulfstream director. "If Gulfstream goes down, your fingerprints will be all over the damn thing."



STORM CLOUDS GATHER

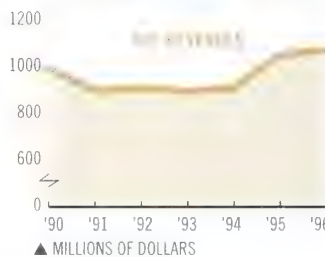
For nearly 40 years, Gulfstream has been synonymous with corporate aviation. The original Gulfstream model, a twin-engine turboprop introduced by Grumman Aerospace in 1958, was the first jet designed expressly for business use. The G II, introduced in 1966, set an imposing new standard for performance and comfort as the first large-cabin business jet. The G III took to the skies in 1979 and was followed six years later by the G IV, maintaining Gulfstream's reign as the maker of the biggest, fastest—and costliest—corporate jets. From Hollywood to Wall Street, the Gulfstream jet is perhaps the ultimate status symbol.

Gulfstream achieved its record of market dominance despite recurring turbulence inside its own organization. In 1978, Grumman decided to get out of the business-jet field and sold the Gulfstream line for \$52 million to Allen E. Paulson, an aerospace entrepreneur who combined the cast-off Grumman operation with two other small-plane manu-

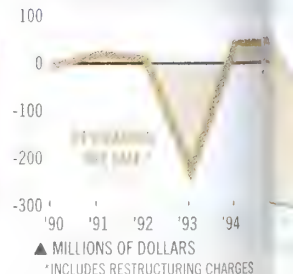
came within days of defaulting on its bank debt in 1993.



AS SALES TAKE OFF...



GULFSTREAM...EARNINGS RECOVER...



facturers to form a new company: Gulfstream Aerospace.

In 1985, Paulson sold out to Chrysler Corp. for \$637 million. At 68, Paulson stayed on to run the business for Chrysler. But four years later, the company again changed hands when Paulson joined forces with Forstmann Little to purchase Gulfstream for \$850 million. Paulson continued as chairman and CEO and held a 32% stake to Forstmann Little's 68%.

To Ted Forstmann, Gulfstream began as just another deal—a "conventional 1980s-style leveraged buyout," as he puts it now. "The idea was that we'd cut costs here and there, sell more planes a year, and make a good return on investment



Since Gulfstream made no attempt to rein in costs—or lower prices—Canadair continued to chip away at Gulfstream's market share even after the introduction of the G IV in 1985 restored Gulfstream's sizable lead in performance. In 1986, Canadair was acquired by Bombardier Inc., a Montreal-based snowmobile pioneer that had evolved into a world-class manufacturer of mass-transit equipment. To round out Canadair's product line, Bombardier acquired three manufacturers of smaller planes over the next few years: de Havilland, Learjet, and Short Brothers. Gulfstream, a one-product company that long had the market to itself, now faced a formidable and well-capitalized competitor in Bombardier. The U.S. company also faced a mounting threat from Dassault Aviation of France, maker of the Falcon corporate jet.

Gulfstream's response didn't help. Instead of lowering prices by cutting costs, the company handed out discounts and special deals. This approach not only failed to win back sales but drained profit from the sales that Gulfstream did make.

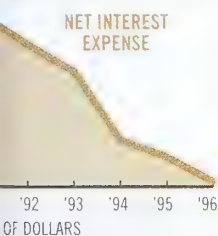
In the second quarter of 1990, just weeks after Forstmann Little had completed its Gulfstream LBO, the U.S. economy fell into recession, eviscerating demand for corporate jets. By

As Canadair nibbled away at its market share, Gulfstream made no attempts to rein in costs or lower its prices

V FOR VICTORY? Costing about \$35 million, the G V is designed to fly 14 hours without refueling

IT PLAN

BT NOSEDIVES...



...AND ORDERS ARE UP



Forstmann says. "We thought it would be a piece of cake." But Forstmann and his partners would eat crow. Far from being a good candidate for a quick tune-up and a lucrative exit back to the public, Gulfstream was a capital-intensive, engineering-driven enterprise in need of a sweeping and costly overhaul. Gulfstream had always been an engineering-driven company where product quality was valued far more than efficiency. Why not? For decades, the company had had no real competition. None, that is, until Canadair Ltd. introduced the Challenger in 1980. To be sure, the Challenger wasn't quite the G-V's equal—but it came close enough to make price a competitive issue.

year-end, orders slipped to 21 from 29. Forstmann's confidence in Allen Paulson's leadership dwindled along with the orders, and in late 1990, Paulson grudgingly agreed to help groom a successor.

However, Forstmann's choice of an heir apparent signaled that he still failed to grasp Gulfstream's fundamental problems. Instead of an operating manager capable of grappling with Gulfstream's deeply embedded cost problems, Forstmann hired a marketer, believing that a better sales effort could return the company to prosperity. He chose William C. Lowe, 50, a marketing veteran of IBM and Xerox Corp. In May, 1991, Lowe was named president and chief operating officer of Gulfstream with the understanding that he soon would replace Paulson.

"GIVE HIM HIS ROPE." Paulson might well have balked at surrendering his authority to anyone, but he quickly concluded that Lowe, an aerospace neophyte, was a particularly unworthy successor. "Every time I turned around, Lowe was screwing up something," Paulson says. "I talked to Teddy about it, but he said, 'You've got to give him his rope.'"

Lowe tells a far different story. He says that he offended Paulson by opposing his plans to develop a supersonic business jet, which Lowe considered completely unrealistic. "Frankly, the supersonic business jet was a figment of Allen's imagination," Lowe says today. Forstmann Little shared Lowe's skepticism, and Paulson's pet project died a quiet death. Paulson withdrew from active management well before the fall of 1992, when he sold his stock to Forstmann Little

for \$50 million. He officially stepped down as chairman and CEO, although he retained a seat on the board.

Lowe, instead, pushed for his own pet project: an ultra-long-distance business jet. It wasn't at all clear that there was a market for such a costly new plane, but Bombardier was already studying the feasibility of building a jet with 35% more range than the G IV. Lowe and Forstmann concluded that Gulfstream could not risk ceding its high-performance crown to Bombardier. In September, 1992, Gulfstream stole a march on its rival by committing itself to the G V.

With this decision, Forstmann Little abandoned its fading hopes for a quick and easy LBO profit. Developing the new plane would take at least four years and require sizable additional capital investment. The buyout firm had already been forced to cancel an offer-

Cover Story

ing to sell 17% of the company to the public earlier in the year when investors balked. The proposed sale had come on the heels of a nearly \$50 million net loss in 1991, when a modest operating profit was overwhelmed by \$73 million in interest expense.

The failed offering embarrassed Forstmann and his partners but still did not chasten them into addressing Gulfstream's underlying cost and capital structure problems. To the contrary, outlays for administration, marketing, and research and development soared by 54% in 1992 as Lowe implemented an ambitious expansion plan. In the fall, Forstmann Little invested an additional \$250 million of its investors' funds in Gulfstream, but not a penny was used to reduce debt. The buyout firm just replaced \$200 million in bank loans with an equal amount of subordinated debt from its own coffers and used the remaining \$50 million to buy out Paulson.

All along, Lowe justified the company's swelling expenses with optimistic sales forecasts, which Forstmann Little and Gulfstream's outside directors accepted without objection until December, 1992. At the year's final board meeting, Lowe conceded that orders were lagging badly but predicted that a last-minute sales burst would put the company



on target. As it turned out, G IV orders for the year reached 26, topping 1991's total by five but falling far short of projections.

Up to this point, Forstmann had not focused on Gulfstream, in part because he was distracted by outside activities, including serving as national co-chairman of George Bush's reelection campaign. But after the yearend board meeting, Forstmann belatedly began asserting himself.

As Forstmann earlier had lost confidence in Paulson, now decided to supplant Lowe with a new hire. "I thought Lowe could sell planes for us," says Forstmann, "but I knew I had to find a proper operating guy." He found Fred A. Bradenbach, who joined Gulfstream in April, 1993, as president.

IGUANA UPHOLSTERY? IT'S THE ONLY WAY TO FLY

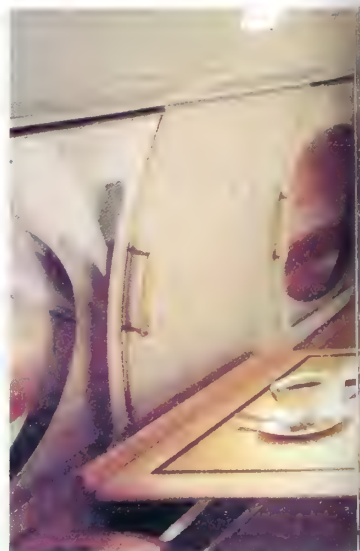
It takes almost as much labor to outfit the interior of a Gulfstream—25,000 to 30,000 hours—as it does to build the plane. While Gulfstream is loath to play with the architecture of the cabin, it offers a bewildering variety of custom-made furnishings in every imaginable material and color—most of which are handmade by Gulfstream workers.

One of the first G Vs to roll off the Savannah (Ga.) assembly line is being turned out almost entirely in turquoise. A pink rug decorated with blue clouds and seats covered in four different colors of embossed iguana and pig suede complete the decor. Gulfstream will not identify the customer, but it's safe to say that she—the company does confirm

that the owner is a woman—does not run General Electric Corp. or IBM.

Although CEOs of public companies are less flamboyant in their tastes, they tend to take no less personal an interest. Many hire designers and bring their spouses along to planning sessions. "I'd say the principal signs off on 95% of all the stuff we do," says James Swindells, Gulfstream's vice-president for completion services.

HUSH AND PLUSH. The typical owner spends about \$3.8 million to outfit a G IV and about \$4.6 million on the larger G V. This covers top-of-the-line stereo sound and video systems as well as a lavishly equipped galley. At about \$12,000 a square foot, it is far more ex-



pensive to decorate a Gulfstream than even the most opulent home. Elaborate engineering is needed to minimize the weight of every object in the cabin.

ET WRANGLERS *Davis and Breidenbach, both ets, filled a gaping financial vacuum*

nief operating officer. An intense but unassuming man, enbach, now 46, had spent his entire career at General ic Co., rising through the manufacturing ranks. hin a few days of arriving in Savannah, Breidenbach's had swung from elation to trepidation. Based on his analysis of Gulfstream's accounts, the new president ded the company would run out of cash in 90 days, pos- sooner. "In reality, the situation was even worse than I ht," Breidenbach says now. "I don't think any of us ed until later how close Gulfstream came to collapse." e alarm raised by Breidenbach shattered the last ves- of Forstmann's complacency. In Breidenbach's view, eam's most pressing management need was for a chief ial officer. The position had been vacant since Septem- hen Thomas P. Maletta resigned. In July, Gulfstream a former colleague of Breidenbach: Chris A. Davis, 43, year veteran of GE. Maletta could not be reached for ent.

WE WAS NO BUDGET. The same week that Davis start- orstmann dispatched his youngest partner, 36-year- andra J. Horbach, to Savannah with two lawyers and accountants in tow. The New Yorkers landed them- in Gulfstream's cave-like boardroom and worked their through company records, contract by contract, in- by invoice. What Horbach uncovered was an almost to- sence of financial discipline in the middle ranks and a of accountability at the top. "There really was no bud- Horbach says. "They'd set one, but if people needed money during the year, they'd spend it and change the ast."

we concedes that the company's financial controls were quate but insists that its fundamental problem was all ebt Forstmann Little had piled atop the balance sheet. company just was not funded properly, given the fact ve had decided to build a new airplane," Lowe says.

mid-1993, Gulfstream was nearly in violation of the ants on \$400 million in bank loans. Davis took the lead rsuading lenders to grant waivers to Gulfstream, avert-

ing a potentially ruinous default. Breidenbach, meanwhile, launched an emergency drive to slash operating costs. By the end of 1993, Gulfstream had shed 750 employees—16% of its labor force. Breidenbach also canceled Lowe's plans to add three new buildings to the Savannah production complex.

At the same time, Breidenbach lobbied suppliers for price concessions. Four big companies represented 70% of the total cost of materials for the G IV: BMW Rolls-Royce (the engine); Honeywell (the avionics); Textron (the wing); and Grumman (the tail). With each, Gulfstream had locked itself into long-term contracts under which it had to pay higher prices every year through 1999. Breidenbach packaged a set of dire G IV sales forecasts with a plea for price rollbacks under the title "Tin Cup" and began making the rounds.

In the end, all four suppliers, presumably concluding it was in their own interest to help Gulfstream survive, agreed to reduce prices. "We were asked to make a bit of a leap of faith. But I did think that Fred and his people made a compelling case that if we didn't get the price of the G IV under control, sales were going to come way down," recalls Dick Wells, president of Textron Aerostructures.

In short order, Breidenbach's initiatives reduced operating costs by \$50 million, or 13%. In Forstmann's view, this achievement was both Herculean and inadequate. By late 1993, Forstmann faced a Hobson's choice: either sell off Gulfstream at a huge loss or recapitalize the company at great expense to investors in Forstmann Little's subordinated debt fund, which by then had \$450 million invested in Gulfstream.

At Forstmann's request, Horbach worked up the sort of formal study Forstmann Little does when weighing an acquisition. Her conclusion: "I felt strongly that the business was fixable." Some of Forstmann's investors disagreed, arguing that the time had come to cut their losses. But Horbach's view squared with Forstmann's deep-seated need to remove the Gulfstream stain seeping across his reputation.

Forstmann decided to convert all \$450 million in subordinated debt to preferred stock, immediately eliminating \$38 million a year in interest payments to Forstmann Little's investors. The investors—mainly large corporate pension funds—had no say in the matter, since they had granted Forstmann Little sole discretion to manage their money. Still,



emanding safety standards and xpectations of comfort and one of the most luxurious as- e G V is invisible: Gulfstream

says it's the quietest corporate jet in existence, "with a cabin as hushed as the quietest luxury sedan."

Increasingly, Gulfstream buyers are

GOING IN STYLE *At \$12,000 a square foot, Gulfstream interiors put Bel Air to shame*

opting for a \$400,000 advanced satellite communications system that is installed in the tail and lets passengers telephone, fax, and E-mail with abandon.

Completing the interiors is high-margin work, but Gulfstream did not put much emphasis on it until William W. Boisture joined the company in early 1994 as its senior marketing executive. At the time, about a quarter of its customers were opting to have their planes finished by outside companies. "We had to get the sales force to realize it was their job to sell the entire airplane," Boisture says. Message received: All but four of the 115 planes that Gulfstream has sold since the beginning of 1995 will be completed in-house.

By Anthony Bianco in Savannah, Ga.

*Gives
traditional
luxury cars
a swift kick
in the ascot.*

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Forstmann glumly made the rounds of his largest investors to ask for their support. He got it—along with a heavy dose of irritation and frustration. “I did feel some annoyance,” says John H. Meyers, president of GE Investment Management Inc., one of Forstmann’s largest and most loyal investors. “In this business, no one expects every investment to be

good, but some of us felt Teddy had been content to rest on his laurels.”

Cover Story

Stung by such criticism, Forstmann decided to step in and run the company himself. In November, 1993, Forstmann appropriated the chairmanship, replacing Lowe, who was invited to resign; the CEO slot was left vacant. Says Forstmann: “I agonized over becoming chairman but to be honest, I was never not going to do it.”



CROWDED SKIES

Forstmann, who took no salary as chairman, says he has devoted about three-fourths of his work time to Gulfstream over the past three-plus years. Although he flew to Savannah on his G IV an average of once a week, he rarely even stayed overnight. Essentially, he piloted Gulfstream from the same Manhattan corner office where he ran Forstmann Little, conferring frequently by telephone with Breidenbach, Davis, and other senior managers in Savannah.

In early 1994, Forstmann cleared the decks at Gulfstream by taking a \$204 million charge against 1993 earnings, resulting in a \$275 million loss for the year. Half of that was a write-off for the balance of the company’s capital in-

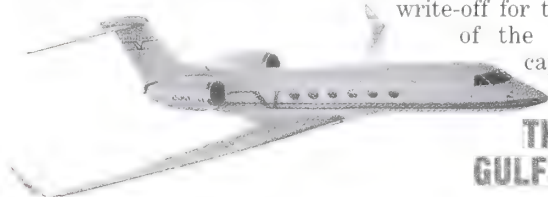
(These prices are for unpainted aircraft with unfurnished cabins; completion of the “green” plane adds \$4 million to \$5 million to the tab.)

By Gulfstream’s reckoning, the potential market for the ultra-long-distance jet consisted of no more than 300 to 500 buyers worldwide. Merely to break even on the G V, the company would have to sell about 100 planes—a milestone surpassed by all earlier Gulfstream models. However, the first time, Gulfstream faced head-to-head competition launching a new model. In late 1993, Bombardier had decided to fund the development of a rival ultra-long-distance model, the Global Express. As initially advertised, the Global Express was to match the G V in range yet feature a larger cabin and higher speeds at a sticker price of \$26 million.

To cut the development costs of the G V, the new regime outsourced the production of the wing and the tail. Forstmann rather than simply put the jobs out to bid, Breidenbach lifted a page from GE’s playbook and persuaded Grumman Aerospace and Fokker Aviation to foot part of the costs in exchange for a cut of future G V revenues. Together, the deals cut Gulfstream’s up-front investment in the G V by \$3 million, or 23%.

Meanwhile, to rev up sales and marketing, Forstmann hired William W. Boisture, a deceptively folksy Louisianian who had run the British Aerospace Corp. division that markets the Hawker line of jets. Boisture, now 51, quickly zeroed in on the G V’s biggest challenge: competition from the Global Express. Boisture designed a new commission system that penalized salespeople for orders lost to Canadair or Dassault while paying a premium for a customer taken from a rival.

Forstmann himself attended to Gulfstream’s advertising, giving it a combative new tone. The first ad he approved (and largely wrote) depicted the Global Express as a paper plane with a crumpled nose. “Canadair will still be making promises when we’re making airplanes,” sneered the ad, which included



THE DOGFIGHT BETWEEN GULFSTREAM AND BOMBARDIER

vestment in the G IV, which, in the judgment of the new management, was hurtling toward obsolescence. Not only had orders for future delivery declined, but seven completed planes, or “white-tails,” were languishing unsold on the tarmac in Savannah. In fact, the G IV had a lot of remaining sales mileage. But as this critical transition year began, Forstmann and his colleagues were convinced that accelerating development of the G V was Gulfstream’s only hope.

The G V was planned to have a maximum range of 6,500 nautical miles—54% more than the G IV—and feature a slightly roomier cabin than its predecessor. If the G V performed as designed, a busy CEO and as many as 18 underlings would be able to fly halfway around the world in 14 hours without refueling. But they would pay dearly for the privilege. Gulfstream initially priced the G V at \$29.5 million, about \$9 million more than the G IV.

G V		GLOBAL EXPRESS
96' 5"	LENGTH	99' 5"
7' 4"	CABIN WIDTH	8' 2"
6' 2"	CABIN HEIGHT	6' 3"
90,900 lbs.	WEIGHT	93,750 lbs.
19	SEATING CAPACITY	19
51,000 ft.	MAXIMUM ALTITUDE	51,000 ft.
6,500 naut. mi.	MAXIMUM RANGE	6,700 naut. mi.*
Mach 0.885	MAXIMUM SPEED	Mach 0.90
\$32 million	PRICE (UNFINISHED)	\$32 million
Dec., 1996	FIRST DELIVERY	Dec., 1997**

*Confirmed in test flight **Projected

DATA: GULFSTREAM AEROSPACE CORP. AND BOMBARDIER INC.

an offer of \$250,000 discount on a G V to anyone who canceled a Global Express order. In later ads, Gulfstream stridently extolled itself as an American icon doing battle against “government-subsidized foreign entities.”

Canadair’s executives deride the ads as wrong-headed. Gulfstream “Buy American [campaign] seems to run totally counter to all of our internal policies of our target customers,” says Michael S. Graff, president of Bombardier Business Aircraft. U.S.-based multinationals “are thinking of themselves as le-

and less American and more global.”

But the advertising battle was a sideshow to the trench warfare that resulted as the Gulfstream and Canadair sales forces fanned out around the world seeking advance orders from every corporation, government agency, and high roller with \$5 million to spend. To the untutored eye, the G V and Global Express appear quite similar (table); they even use the same

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DEAN BURGESS FROM ARAMARK with OWEN CHAPPELL OF BRITISH PETROLEUM

FINDING ARAMARK WAS GENIUS. WHEN WE HAD SALES OF \$150 MILLION, 6 MONTHS FASTER THAN WE PLANNED, IT WAS LIKE STRIKING OIL."

And we have sold 50,000 barrels of oil a day at \$22 a barrel in 1996 if ARAMARK weren't a major part of the consortium of companies working in the North Sea? I think the answer is clearly, no. Oh, we knew how well Dean Burgess and his team would handle our food service, line and book concessions, the facility management and even mail delivery for 90 full-time people. There was never a doubt. But when ARAMARK had the idea to build the entire offshore crew's living quarters on dry land, float it to the site, lift it onto the platform and in less than four plug it in so we could begin drilling oil immediately, well that's when we knew we had ourselves a real partner. And to think, the entire project in \$136 million under budget. When you combine that with the millions of barrels of oil we've sold, well, what can I say?" The words of Owen Chappell of British Petroleum. Who said it couldn't be done? No one at ARAMARK, that's for sure. That attitude is nowhere to be found when the thing that matters is solving a partner's problems. Helping a partner save money. And helping a partner make money. It's led Mr. Chappell to the thing: The sales of BP's oil is so high, ARAMARK is proven to us every day. I don't know...

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BMW Rolls-Royce engine. But the rival sales forces have barraged prospects with endless technical claims and counterclaims. The senior executive of one American company that recently placed a G V order groans when asked if he expected Canadair to continue pursuing him. "Oh God, yes," he says. "We only need one new plane, but they seem more determined than ever to sell us theirs."

Forstmann threw himself into the sales fray with abandon, hopping in his G IV and flying halfway around the world, if necessary, to clinch a sale. He was having lunch with his mother one weekend in 1994 when she surprised him with a a doleful question: "Teddy, aren't you doing well?" Forstmann assured her all was fine. "Why are you going around selling planes then?" she asked. Says Forstmann: "I know some people consider it degrading for me to be selling planes. But I do not feel degraded at all, not one tiny percentage point."

Forstmann, who prides himself on assembling high-powered boards, enlisted Gulfstream's directors in his sales drive. Every month, management circulates a list of current prospects, inviting directors to pitch in with a phone call or personal visit. In addition to Forstmann, the board includes such world-class networkers as Robert Strauss, George P. Schultz, and retired General Colin L. Powell.

SALESMEN WITH CLOUT. In 1994, Strauss made a well-timed call to Walter Mondale, then U.S. ambassador to Japan, that helped Gulfstream ace out Bombardier and Dassault, and land a big contract with the Japanese air force, which has purchased five G IVs to date and eventually may buy as many as four more. "Have I been active [selling planes]?"

Strauss asks rhetorically. "Boy, is that an understatement."

By the end of 1994,

it was evident that Gulfstream was on its way back. It had rebounded from its mega-loss in 1993 to post a \$24 million net profit. Buoyed in part by a providentially timed updraft in the choppy market for corporate aircraft, G IV sales had rebounded and 41 firm orders for the G V were in hand, each secured by a nonrefundable \$2 million deposit. In early 1995, Forstmann dealt Canadair what he hoped would be a decisive blow: He hired away its top executive, Bryan T. Moss. Now 57, Moss is one of the world's most accomplished airplane sellers, though he is so silky and cerebral in manner that he seems more statesman than salesman.

Moss's sudden departure hit Bombardier right between the eyes. He left "with no notice," growls a spokesperson for Bombardier. Instead of the party he requested, Bombardier's going-away present was a lawsuit filed in U.S. District Court to prevent him from taking confidential information to Gulfstream. Bombardier eventually withdrew its suit, but the bitterness lingers. "They made it very unpleasant for me," Moss says. Senior Bombardier executives decline to com-



Bombardier claims that its tenacious sales force has sold close to 60 Global Express jets

BEAUDOIN Bombardier's CEO says Forstmann won't stick with Gulfstream for long

ment on the record. Private their response to Moss's departure can be summarized in a single epithet: traitor.

With Moss's help, Gulfstream has garnered 70 orders for the G V—a figure reported in company's Securities & Exchange Commission filings, though some of those customers could walk away from their million deposits in a recession or in the face of a better offer from Bombardier, it's a strong start. Bombardier hasn't revealed orders for the Global Express. "Our only comment is that we are approaching orders," says John Laws, president of Canadair Business Aircraft. Prove it, scoff Gulfstream executives. Whatever the differential, Gulfstream clearly has taken the first round in a contest that is still in early stages.

The struggle entered a critical new phase on Dec. 13 when the Federal Aviation Administration awarded provisional certification to the G V after 18 months of testing. This allowed Gulfstream to begin "delivering green aircraft to customers for interior customization. The G V is expected to be awarded certification at an FAA meeting

on Apr. 11. Some aviation experts believe the Global Express will be a superior aircraft—if it performs as promised. Bombardier's own estimate, Canadian authorities are not expected to certify the Global Express for at least another year, putting the company at a continuing disadvantage.



REGAINING ALTITUDE

Last October, Forstmann Little took Gulfstream public, raising \$1 billion in one of the largest IPOs of 1996. But only about \$100 million of the proceeds went to Gulfstream itself; the balance was pocketed by Forstmann Little and Gulfstream executives. At about the same time, Gulfstream borrowed \$450 million to redeem the preferred stock held by Forstmann Little's investors. The firm still owns 42.4% of Gulfstream, now worth about \$720 million.

According to Forstmann Little, its subordinated debt investors ended up earning 22% a year on their investment in Gulfstream, a bit above the firm's 20% average return, while its equity investors have made 40% a year—well under Forstmann Little's historical average but a handsome turn by almost any other standard.

Bombardier tried to turn the IPO to its advantage. Laurence Beaudoin, Bombardier's chairman and CEO, contends that Forstmann Little has "taken an investment-banker-type approach" toward Gulfstream. That is, its aim has not been to fortify Gulfstream for the long haul but to "see how fast they can turn it around to sell it to the public."

This assertion infuriates Forstmann, who insists that

Cover Story

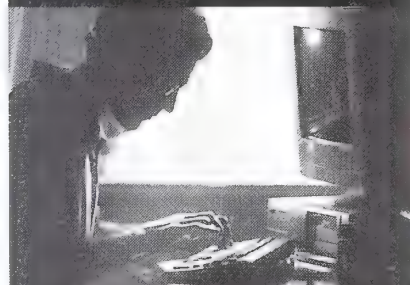
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and his partners are in no hurry to cash out. Why would they, with the jetmaker's stock trading a bit under the IPO price of \$23 a share? The stock has languished even though Wall Street projects earnings this year at about \$190 million, quadruple 1996 levels, as it cranks up G V and G IV deliveries. "The promise is certainly there," says

Byron Callan, Merrill Lynch & Co.'s aero-

space analyst, "but given this company's turbulent past, people want to see how 1997 actually plays out before they get excited."

In some ways, Gulfstream remains a work in progress. Over the past three years, the company has cut the average assembly time of the G IV from 67 to less than 30 days, and

yet Breidenbach still sees considerable room for improvement. The company also must master the formidable technical challenges of simultaneously producing two different models on the same factory floor. And sooner or later, Forstmann must solve the chronic problem of succession and fill Gulfstream's long-vacant CEO slot.

After 3½ years, Forstmann is less enamored of his management post than he once was. And though there's doubt his passion for the company is real, he remains heart an investor, not an operator. His mission at Gulfstream was twofold: to pilot its return to health and then cash it up for a profitable sale. Step one is done; step two is just a matter of time.

By Anthony Bianco in Savannah, Ga., with William Symonds in Toronto

Cover Story

IT'S NOT WRETCHED EXCESS—IT'S A NECESSITY

During the 1980s, the business jet was vilified as a symbol of corporate conspicuous consumption.

Who can forget the tales of Ross Johnson ferrying his dog around on the RJR jet or Mary Cunningham redoing the bulkhead of Morrison Knudsen's plane in gold-leaf flowers?

As shareholder backlash against such excesses gathered force, many executives decided flying commercial wasn't so bad after all. The number of U.S. companies operating their own aircraft peaked in 1986 at 7,310 and fell through decade's end to a low of 6,584 in 1991, according to Aviation Data Service Inc., a consulting firm. One might have thought that the 1990s vogue of downsizing would have finished off the corporate jet for good. Instead, the number of companies using business jets has been accelerating steadily since 1992, hitting a record 7,480 this year.

In part, that's because generally robust economic conditions and the increasing globalization of business have provided an enormous boost to planemakers. But Gulfstream, Bombardier, and others also have aided their cause by shifting their marketing focus. Recognizing that an overt appeal to CEO vanity would no longer fly in an era of cost-consciousness, they've recast the corporate jet as a money-saver. No less important, they've also capitalized on the mania for penny-pinching by selling jets to time-share concerns that let companies own just a piece of a plane for far less than the whole thing.

Of course, none would deny that an executive jet remains a high-status luxury much coveted by the corporate elite. But to help convince skeptical boards that it's also a necessity, the industry now is getting down to particulars. Last fall, the National Association of Business Aircraft, a leading trade group, began selling a new software package—Travel Sense—that helps corporate flight departments cost out every single trip and

when the boss is pulling down \$20 million a year.

Of course, you won't hear CEOs advocating the purchase of a G V or Global Express on the basis of their fat salaries—or on any other basis, for that matter. A jet is a hard thing to hide, yet most companies respond to questions about them with the tight-lipped "no comment" usually reserved for a scandal.

Although corporate jets haven't

figured prominently in the proxy battles of the 1990s, a belief in their frivolity remains an article of faith among activist shareholders. "I don't know of a single person who thinks of the corporate jet as a good thing," says Nell Minow, a principal of Lens Inc., a shareholder-rights group.

Faced with that kind of skepticism, both Gulfstream and Canadair are moving beyond the fat-cat class by embracing the concept of time-sharing, or

shared ownership. For a few million dollars a year in fees, customers of time-sharing companies get an equity interest in a plane and the right to use it for a set number of hours.

Bombardier owns a piece of JetSolutions, a time-sharing firm founded in 1995. Gulfstream has gone a different route, fashioning a marketing alliance with NetJets. Founded in 1987, NetJets is the largest and oldest aviation time-sharing company. It also has become far and away Gulfstream's single biggest customer, having ordered 33 planes (31 G IVs and 2 G Vs) since 1995.

By Anthony Bianco in New York



MONEY-SAVER? Lou Gerstner with Big Blue's bird

figure out in advance whether it would be cheaper to take the company plane, charter an aircraft, or fly commercial. "It's been a real eye-opener," says a senior officer of one of the 260 companies now using Travel Sense. "I do think that the use of private planes is increasingly economic."

TIME SHARES. The financial argument for corporate jets has been bolstered by wrenching changes in the airline industry, which have driven the price of a business-class ticket up precipitously and cut service, especially to second-tier cities. CEO salary inflation helps, too. The time that a private jet saves the CEO is more valuable

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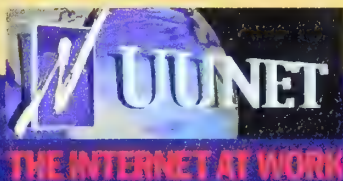
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THE ADMINISTRATION

'DR. ELBOWS' GETS MORE ROOM

Treasury's tough guy, Larry Summers, pumps up his power

Larry Summers was getting fidelity—never a good sign. The Deputy Treasury Secretary was 90 minutes into a Saturday-morning retreat with top Internal Revenue Service brass in March, 1996. And he was seeing firsthand that many of the charges against the agency were true—IRS officials were more focused on defending their turf than on digging the agency out of its mess. The flashpoint: Capitol Hill complaints that the IRS had wasted much of the \$4 billion spent on updating its antiquated computer system.

What followed was classic Summers: "He just ripped their agenda to shreds," says a former IRS aide. With withering questions, Summers pressed agency officials to figure out how to rescue their foundering project and improve taxpayer service. Their answers told Summers that IRS managers weren't up to the job. By day's end, Summers was ready to acknowledge to Congress that the IRS's computer upgrade was "badly off the track"—and to force the insular agency to turn much of the project over to outsiders.

CENTRAL ROLE. Lawrence H. Summers, management expert? The image hardly seems to fit the *enfant terrible* economist best known for the wide-ranging research that won him tenure at Harvard University at the age of 28. But over six years in Washington—first as chief economist at the World Bank, then as top international negotiator and No. 2 official at Treasury—Summers has certainly learned the capital's power games. Now, he has a central role in forging Administration economic policy.

President Clinton acknowledged Summers' growing role in December when he made the 42-year-old economist the only sub-Cabinet official with a seat on the White House National Economic Council. Summers is also at the table most Thursday mornings when his boss, Treasury Secretary Robert E. Rubin, has breakfast with

Federal Reserve Chairman Alan Greenspan.

The next few months, however, may leave Summers longing for quiet, ivy-covered halls. A congressional commission is likely to recommend in April that the IRS's tax collectors be spun off into an independent agency, leaving Treasury with at most a small group of regulation-

At the same time, trouble is brewing on Summers' old beat, international economics. Since 1995, Summers and Rubin have promoted a strong dollar to help keep U.S. interest rates down. But now, the greenback's strengths feeding a surge in Japanese exports. "We're headed back to the mid-1980s, when the strong dollar and weak yen

LARRY SUMMERS' PAST...

MEXICO Summers designed and shepherded successful U.S. and international rescue after the 1995 peso crisis.

INFLATION-INDEXED

BONDS Summers championed and helped design Treasury's new bonds with rates that vary with inflation. First issues have proven popular.

STRONG DOLLAR After favoring a cheap dollar to punish Japan in 1993-94, Summers reversed course and supported the dollar's long climb. Now, he's trying to put a cap on the greenback.

TAXES Summers, a fan of savings incentives, is more inclined to favor cuts in taxes on capital gains than other Clintonites. He also helped design Clinton's welfare-to-work corporate tax incentives.

writers and tax-crime investigators. Summers will have to persuade skeptical legislators in both parties that his more modest plans, announced Mar. 17, can shake up IRS management and improve service for taxpayers without stripping Treasury of its oversight of the tax collectors—who make up more than half its employees.



WUNDERKIND
Summers' research won him tenure on Harvard's faculty at 28

created enormous trade and financial tensions," warns Fred Bergsten, director of the Institute for International

Economics, a Washington think tank. Rubin and Summers downplay the risk—but are acting to head it off. The Treasury chief now says the bulk

ouldn't go up anymore. And Summers went to Tokyo in March to warn Japan not to try to export its way out of its long slump. "We thought it was appropriate time to send a signal to Japan on the importance of domestic demand," he explains. Economists in Tokyo, however, question Summers' logic, since Japan's budget—the main vehicle for boosting domestic growth—was already set.

DISCREPANCY MANNER. Back home, White House aides are promoting Summers' view of what could be the biggest economic initiative of Clinton's second term: drafting a plan to ensure Social Security's solvency. Based on Summers' savings writings while in academia, a few remaining liberals in the Administration fear he'll push for mandating private retirement accounts to supplement Social Security. But Clinton hasn't yet decided whether to tackle entitlement reform, and all Summers can say for now is that "nothing we do could jeopardize Social Security's

left his footprints on many backs as he ripped up competing policy ideas with whirlwind analyses and brusque attacks. Behaving as if he were still a college debater back at the Massachusetts Institute of Technology, "Larry didn't have time for people who weren't up to his intellectual caliber—and there aren't many people who are," says a former Treasury staffer. His style didn't win him friends abroad, either. Although Summers and Rubin rescued Mexico from the 1995 peso crisis, Bundesbank President Hans Tietmeyer privately complains that he first heard of the U.S. bailout during a radio news report.

But colleagues say Summers wields his elbows with far more care now. "I've even heard Larry say recently that he knows less about a topic than someone else does," laughs an academic chum. Summers is learning his people skills from Rubin, a master of conciliation. Clintonites say that Secretary Smooth and Dr. Elbows make a strong team: "Bob has put a softer edge on Larry,"

leagues also say Summers is a hawk on fixing cost-of-living adjustments, siding with a congressional panel's finding that the consumer price index overstates annual inflation by 1.1 percentage points. Summers insists that he's "in the middle of the range" of Administration policymakers on the size of the CPI error, which affects Social Security COLAS and tax brackets.

Even when they disagree, Rubin still gives Summers' views great weight. For example, Rubin was skeptical that Treasury could lower its borrowing costs and help investors by issuing bonds with floating interest rates indexed to inflation. But the former Wall Streeter became a convert under the barrage of his insistent deputy's research. Summers "combines an extraordinary economic mind with a deep understanding of the political dimensions of issues," Rubin says.

He'll need that—and more—to fix the IRS. Summers has hired a chief information officer—the highest-ranking outsider to penetrate the IRS bureaucracy in years—and is pushing for a top manager to serve as IRS commissioner. He's also farming out more of the computer work to contractors like Lockheed Martin, TRW, and NCR. Up next: a blueprint and executive advisory board to guide the agency's computer update.

SCORING POINTS. IRS critics praise Summers for tackling the agency's problems—but don't think his plan goes far enough. "It's going to be difficult to make the personnel and management changes IRS needs without an independent and strong board to run the agency—not just advise it," says Senator Bob Kerrey (D-Neb.), co-chair of the National Commission on Restructuring the IRS. That congressionally sanctioned panel is likely to recommend converting all or a major chunk of the IRS into an independent agency run by a business-oriented board, like the Federal Reserve System or the U.S. Postal Service.

Summers begs to differ. "Tax administration belongs in the same agency as tax policy," he says. But that's a debater's argument, and Summers has learned that he has to score political and practical points to prevail in Washington. So he's negotiating with the commission to soften its position, noting that time spent debating IRS independence could better be used "actually fixing the IRS." Summers is still a man in a hurry. But now that he's fixing economic problems instead of studying them, he recognizes that barreling ahead at full speed doesn't always get the fastest results.

By Mike McNamee in Washington

... AND HIS FUTURE

IRS OVERHAUL With pressure mounting in Congress to revamp the tax-collecting agency, Summers proposes a milder plan to beef up Treasury's oversight and improve IRS management. Skeptics say the plan's just an attempt to protect Treasury's turf.

TAX SIMPLIFICATION Strongly opposed to sweeping tax reforms such as the flat tax or a national sales tax, Summers is cobbling together a dozen measures to ease taxpayers' burdens. GOP reformers say he's trying to undercut their drive for an overhaul.

JAPAN TRADE Summers went to Tokyo to warn Japan not to depend on a weak yen and big exports to lift its faltering economy. Critics charge that he spoke too late, and fear the U.S. is headed for bigger trade deficits with Japan and another round of trade tensions.

SOCIAL SECURITY REFORM If Clintonites are forced to confront Social Security's long-term weaknesses, Summers will be tapped to develop a new policy. Based on his academic research on savings incentives, Summers may be inclined toward supplementing Social Security with mandatory personal savings accounts.

says former Labor Secretary Robert B. Reich, "and Larry sharpens Bob's edges. Together, they get it about right."

That doesn't mean Summers and Rubin always see eye-to-eye. In internal debates, Summers argues for investment incentives, including bigger tax breaks for capital gains. Rubin sees a capital-gains cut as poor economic policy fueled by political necessity. Col-

at achievement" of ensuring that elderly don't live in poverty. To take on Social Security, Summers needs a keen ear for political nuance and a deft touch—not qualities he's known for. After Clinton's election, he was passed over for the chairmanship of the Council of Economic Advisors because of his prickly reputation. And once he was at Treasury, Summers



CALL IT I-WAY ROBBERY

The thieves had done their homework. A little after midnight on June 9, 1995, three men sliced through the chain-link fence surrounding Overnite Transportation Co.'s Waynesboro (Va.) truck yard. Then they hot-wired the "yard horse," a tractor used to maneuver trailers around the lot, and quickly towed two big trailers so they would shield a large part of the truck yard from the road outside. Their main target: a trailer containing hundreds of thousands of dollars worth of Lexmark computer printers.

including two separate SWAT teams. After allowing the criminals to load about \$250,000 worth of contraband, the police moved in on the six men. In January, they all pleaded guilty to the theft and received jail terms of 21 to 48 months.

So far, those convictions are the leading law enforcement victory against a major new crime wave: high-tech cargo theft. The South American Group and a

fraudulent paperwork at a South Francisco distribution yard and drove off with \$637,000 worth of Seagate Technology Inc. disk drives. On March 11, thieves in the Southern California town of Fontana took two trailers containing \$500,000 worth of keyboards, monitors and software destined for Hewlett-Packard Co. Fujitsu Ltd. lost \$110,000 worth of disk drives on Mar. 11.

Now, even executives that in the



THE SCENE OF THE CRIME

The Overnite yard, where thieves tried to make off with a truckload of printers



Barking orders into a walkie-talkie, one of the criminals ordered two others outside the unguarded lot to drive a pair of Ryder rental trucks to the front gate. A sixth member of the crew remained outside the truck yard as a lookout and monitored police band radio. The men inside the lot broke the lock to the front gate, waved the Ryder trucks in, and recharged the gate with their own lock. Then the team drove the Ryders next to the treasure trove of printers and started to unload.

CRIME WAVE. The robbers belonged to a loosely knit nationwide criminal syndicate that is believed to have committed hundreds of high-tech thefts over the past two years. Made up mostly of Ecuadoreans, Peruvians, and Colombians, the syndicate is known as the South American Group and is renowned, among other things, for its uncanny ability to detect police sting operations. But on this night, recently convicted crew leader Luis Piedra was off his game. Waiting in the woods outside the truck yard were more than 60 police officers,

growing contingent of Korean, Indian, Pakistani, and American gangs are ripping off printers, chips, disk drives, and monitors from trucks, warehouses, seaports, and airports at an unprecedented rate. Last year, law-enforcement authorities say, there were more than 500 major heists worldwide. Total worldwide cargo theft losses climbed by 24% in 1996, to \$1.4 billion, according to Asset Management Technologies Inc., a Raleigh (N.C.) consultancy.

Since Jan. 1, there have been at least 15 major cargo heists in the Silicon Valley and Los Angeles areas alone, accounting for \$3 million in losses, according to the California Highway Patrol. On Mar. 5, a trucker presented

THE GANG

Luis Piedra (far left) led the crew that broke into Overnite's yard. Allegedly part of a syndicate called the South American Group, they pleaded guilty in January



downplayed the problem as insignificant. In early March, Western Digital Corp. Chief Executive Charles A. Haggerty called Seagate CEO Alan F. Shugart and Quantum Corp. Michael A. Brown to discuss ways to fight cargo theft. "We've all agreed we need to do something," says Haggerty, whose company has been hit 10 times over the past year for more than \$1 million in losses. "It's turning into a major concern."

The cargo crime epidemic is forcing technology executives to recognize that theft could very well become a systemic problem for the industry. High-end components such as Pentium chips carry worth more by weight than gold, and they are rarely as well-protected.

acking is the -tech industry's st plague

ing them is a cinch. A worldwide
k market has developed that can
low up millions of dollars of stolen
s without a trace.

a fact, microprocessors, memory
s, and disk drives are in such high
and that their street value is 50% of

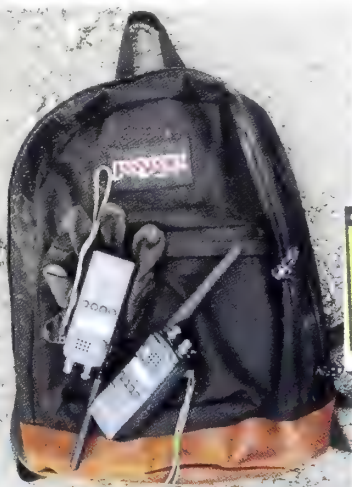


THE TOOLS The gang, which used walkie-talkies, hot-wired a tractor to move trailers around and broke the gate's lock to bring in getaway trucks

r retail value—in contrast to 10%
most stolen goods, according to
yLu Korkuch, executive director of
Technology Theft Prevention Foun-
on in Warren, N.J. Korkuch esti-
ates that component theft, including
o heists and other types of robbery,
s \$150 to the cost of the average
puter. And that's not to mention the
an cost. Foremost, lives are put at
But additionally, suppliers can't fill
ers, and customers miss deadlines.
Until recently, most high-tech com-
ies have been too busy enjoying suc-
to pay much attention to these de-
pments. But that's changing. Last
the American Electronics Assn. and
International Electronics Security

Group hired the Santa Monica (Calif.) research organization RAND Corp. to develop the industry's first computer- and component-theft reporting system. The two groups, worried that the crimes are underreported, plan to use the data to lobby for more law enforcement and tougher penalties for high-tech crooks.

Technology companies started noticing a surge in cargo heists in late 1995. The timing isn't surprising. In 1994 and 1995, record prices for memory chips and a computer-parts shortage set off a wave of armed robberies at computer-parts factories worldwide—56 in the first five months of 1995 in Silicon Valley alone. Those incidents prompted companies to hire more guards, install new video cameras, tighten hiring, and



Group. Philip Povey, a sergeant in the Irvine (Calif.) Police Dept.'s Economic Crimes unit who has investigated dozens of its heists, says the South American Group is not a traditional hierarchical criminal organization like, say, the Cali drug cartel. Rather, it is a nationwide group of criminals who frequently collaborate. "I don't consider them a gang but a loose-knit syndicate of affiliated criminals," Povey says.

ROOTS IN SHOPLIFTING. The South American Group traces its roots to gangs that focused on shoplifting in the New York City area in the early 1980s and eventually graduated to cargo theft, according to Lieutenant Joseph J. Rogalski, supervisor of the New Jersey State Police's cargo theft unit. Over the past two years, the South American Group is believed to have spun

THE MOTIVE Demand for components such as chips and disk drives is enormous, as these ads in computer magazines attest

take other steps to boost factory security. That, in turn, has led a new generation of crooks to attack the goods in transit.

Because law-enforcement authorities are still new to the war against high-tech cargo theft, they don't know much about the criminals behind it. "When we look at organized crime in this area, we can't yet say, 'This group controls Chicago; that group works in San Diego' as we can in other areas such as the drug trade. We just don't have the data yet," says Edward Badolato, chairman of the National Cargo Security Council in Washington.

Nonetheless, authorities believe that the vast majority of the heists are being committed by ethnic gangs and that these gangs include large numbers of illegal immigrants. The most active of these criminal organizations is the South American

off cells in Los Angeles, San Francisco, and Miami, Rogalski says. He estimates that the syndicate has 30 to 50 active members in New Jersey. An additional 100 or so are operating in California, according to law enforcement authorities. "These guys only trust each other. They won't work with Americans. That's why it's so tough to get 'em," says Kevin Fairchild, a Santa Clara (Calif.) private detective.

The members of the South American Group are surprisingly adept at eluding the authorities. During heists, they will frequently switch drivers so that prosecutors can't be sure which one to drag into court. "One minute the driver is wearing a red baseball cap, and the next minute he's got a blue shirt," says Marc S. Zavala, of the Los Angeles Police Dept.'s cargo theft unit. The syndicate also keeps a kitty so members can post bail for one another and hire high-priced defense attorneys. Because property crimes are lightly punished, they usually receive sentences of two years or less even if convicted. "These guys...know the judicial sys-



tem doesn't really put the screws to them," Zavala says.

The South American Group's methods are typical of sophisticated cargo theft gangs everywhere. Attacks are frequently preceded by diligent surveillance. A week before the Waynesboro theft, for example, police watched surreptitiously as three men cased the site at 1 a.m. on Sunday. After driving around the isolated neighborhood looking for guards and finding none, the three men shook the truck yard's wire fence to see if it had any alarms. Then they broke inside and examined the locks on the trailers. Next, they yelled—just to see if anyone would come running. On other occasions, members of the South American Group have videotaped loading docks to study product delivery patterns and pretended to apply for jobs while actually studying a plant's video camera locations, law-enforcement officials say.

Unlike the Waynesboro incident, the South American Group frequently attacks trucks in transit. On Feb. 21, for example, five suspects who are believed to be members of the syndicate followed a truck as it was leaving Western Digital's factory in Irvine, Calif., Povey says. When the driver stopped at a strip mall to make a phone call, the men jumped out of their van and attempted to break into the truck. (A passerby with a cellular phone alerted police to the attack, and the men were arrested.) Armed attacks, once rare, are becoming increasingly common as companies improve their cargo security efforts.

POPULAR PLOYS. Other groups, meanwhile, use different techniques. Some gangs bribe truck drivers with a few thousand bucks to leave their loads in a vulnerable location—say, a remote corner of a fast-food parking lot late at night. Another popular method is to forge loading dock papers and drive off with the load in broad daylight.

Once thieves have obtained high-tech contraband, selling it is easy. A vast network of computer-parts brokers are willing to shell out cash for sought-after components—just read the classifieds in many computer magazines. While most of these resellers are honest, "there are some who will buy from somebody out of the back of their car—no questions asked," says Richard J. Bernes, a special agent with the FBI's high-tech task force in San Jose. These dishonest brokers generally forge paperwork to make it look as if they have purchased the parts legitimately, then "a hundred faxes go out, and a hundred distributors see a

ANATOMY OF A HIGH-TECH HEIST

1. THE FENCE PLACES AN

ORDER Cargo thefts are often initiated when a fence, generally a business person who owns a seemingly legitimate computer company, tells



thieves what parts are desirable.

2. SURVEILLANCE

Using tools such as binoculars and video cameras, the gang cases the factory or shipping site it plans to hit, taking note of the comings and goings of cargo trucks and security guards.



3. THE ATTACK

When the cargo is vulnerable—say, left in a truck in an unguarded lot—the criminals swoop in. While armed attacks are rare, they're becoming more frequent.



4. BACK TO THE FENCE

Within hours, the goods are delivered in their original packaging to the fence, who drafts a fake invoice and ships them to other computer-component resellers. Sometimes the products are sold a dozen times in a few days—effectively making them indistinguishable from legitimate parts.



5. INTO THE CHAIN OF

COMMERCE Stolen parts are so ubiquitous that they often wind up, after passing through many resellers, in the hands of legitimate companies.



decent price," says Harry J. Bidleman, sergeant with the Scotts Valley (Calif.) Police Dept. who works on high-crime cases.

Since shady brokers often list legitimate products with stolen goods, it's hard for customers to tell the difference. Once parts enter the chain of commerce, they are resold several times in rapid succession, acquiring a thick paper trail. "The third or fourth broker down the line has no idea the parts were originally stolen," Bernes says.

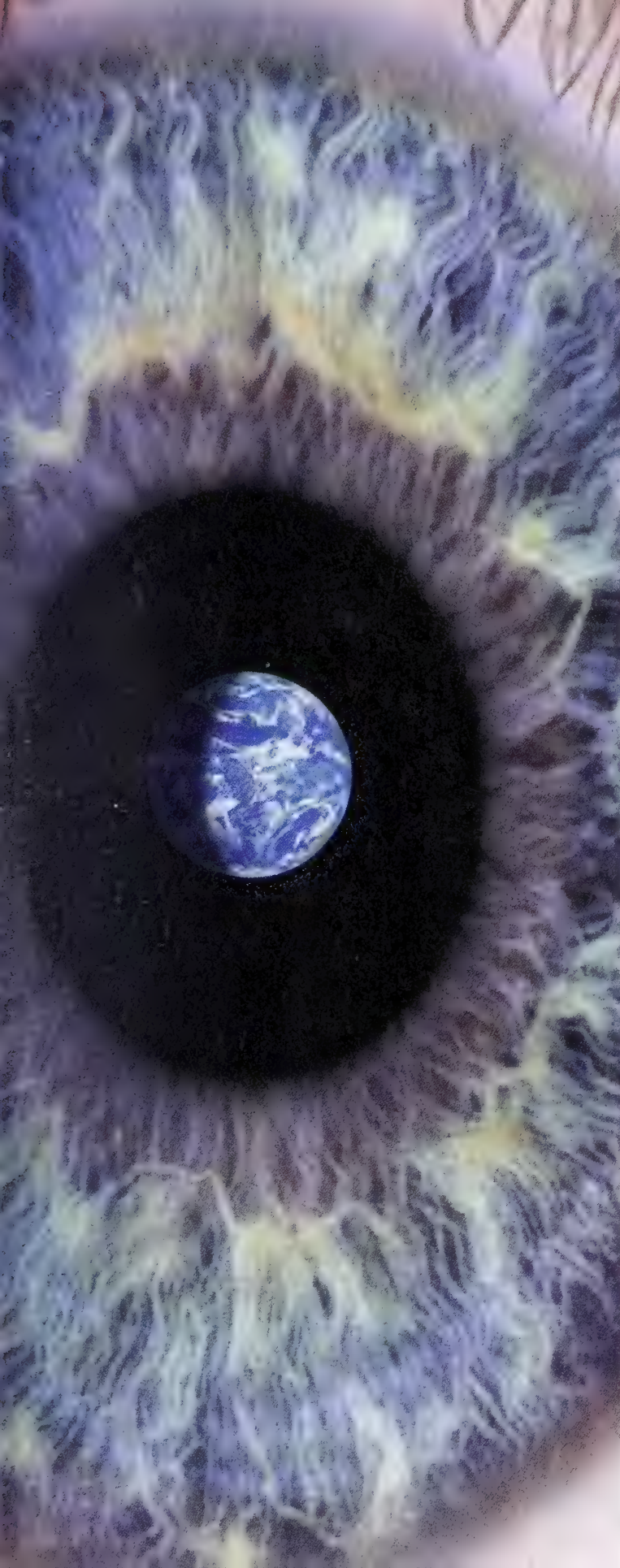
A typical example of the type of "high-end" fence who introduces stolen parts into the market is Nathan Loeb, a Brooklyn (N.Y.) man who is alleged to have received stolen computer parts from Piedra's crew, says Scott Jenkins, a detective with the New Jersey State Police's cargo theft unit. Loeb pleaded guilty to possession of stolen property last year, though his lawyer, New York-based Michael Bachner, denies he was a major fence.

According to Jenkins, Piedra frequently sold stolen computer parts to Jose Coello, a North Bergen (N.J.) man who was indicted last year for receiving stolen property. A onetime restaurant owner, Coello was an all-purpose fence "who could move anything," Jenkins says. Coello has pleaded not guilty to the charges. Neither his lawyer, nor Piedra's, returned calls for comment.

Coello, in turn, frequently sold computer parts to Loeb, who ran a legitimate computer-parts store in lower Manhattan. But he also allegedly had a fencing operation on the side, selling approximately \$1.5 million in stolen components to customers in Israel and South America, Jenkins says. Unlike many other alleged fences, Loeb does not appear to have sold contraband directly through his store, Jenkins says.

As long as there are plenty of fences around, law-enforcement authorities say, there will be no shortage of thieves to supply them with stolen goods. While few high-tech companies are now taking expensive steps to thwart the problem, such as hiring guards to tail their delivery trucks, the FBI's Bernes thinks the problem won't really be going away until the high-tech industry has a fundamental change in outlook. "What I think the industry is going to have to realize is that they have to treat a product like cash," he says. Chipmakers in Malaysia already transport their wares in armored cars. It could happen here, too—sooner than we think.

By Mike France in Warren, N.J., and Peter Burrows in San Mateo, Calif.



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JIMMY LEE'S GLOBAL CHASE

He wants to extend the loan leader's dominance

In mid-1995, after making several acquisitions, Time Warner Inc. decided it needed to reduce its debt costs. Richard J. Bressler, the media giant's chief financial officer, went straight to James B. Lee Jr., head of global investment banking at what was then Chemical Banking Corp. Bressler had a difficult list of requirements. For starters, he wanted \$8.3 billion, an unusually large chunk of change. And because of Time's prestige and size, he wanted below-market pricing. Recalls Bressler: "Without calling anyone back at his bank, Jimmy said, 'We'll be able to deliver on that,' and he did."

Just another day's work for Jimmy Lee. His ability to pull together huge sums virtually overnight at aggressive prices helped make Chemical and then, after its 1996 merger, Chase Manhattan Corp. king of the \$888 billion U.S. syndicated loan market. Along with most of the world's largest banks, Chase arranges loans and then parcels them out to other banks. As the nation's largest bank, with \$336 billion in assets, Chase has a lot of clout in the market and can afford to commit more of its own money than most rivals. In 1996, it led \$301 billion of deals in the U.S. to control an eye-popping 20% market share, according to *Loan Pricing Corp/Gold Sheets*, a newsletter that tracks commercial lending. Few have

had such a hold on such a large market since Michael R. Milken dominated junk bonds in the 1980s.

Lee, who was recently named vice-chairman of Chase's banking unit, has been expanding the bank beyond loans into lucrative junk bonds and advisory work. Last year, he helped Clayton, Dubilier & Rice Inc. complete a leveraged buyout of Riverwood International Corp., a deal in which Chase was adviser, lead bank on both loans and junk bonds, and an equity investor. It was Lee's dream of one-stop-shopping. He envisions Chase as the provider of choice for all the financing needs of the world's corporations. "We are using the loan business as a platform to build a new type of global competitor," he says.

This bold ambition may be tough to achieve. U.S. and foreign investment and commercial banks are trying to chip away at Chase's top spot in syndication. And they're not readily ceding ground on the junk bond and advisory fronts, although Lee has pushed Chase to No. 6 in U.S. junk bonds, says Securities Data Corp., in just four years. Plus, Wall Street owns equity underwriting—key to many financings—an area in which Chase is just starting.

Lee's muscle has made him a controversial figure. Rivals complain he sometimes uses strong-arm tactics to pull off deals. And they say his sharp pricing narrows spreads, making deals riskier. Lee dismisses such complaints.

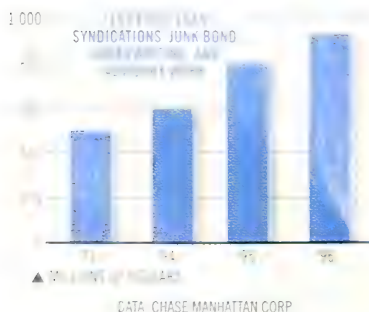
Lee's investment banking group last year earned about 20% of Chase's \$3.5 billion operating profits. Lee says fees

from loans, bonds, and advisory work—nearly half his group's \$2.2 billion in revenues—can keep growing at an average annual rate of over 20% if markets don't flag and if Chase stays focused.

No one doubts that Lee is focused. He leaves his Greenwich (Conn.) home by 6 a.m. armed for combat in his signature silver-dollar suspenders and a blue shirt with white collar and cuffs. At 7:45 a.m. the 44-year-old Lee rallies some 300 of his troops. "There are two parts to the meetings," says Lee. One is motivational. The other is about managing market and credit risk," says Herbert A. Allen, president of invest-



THE CHASE IS UP



banking firm Allen & Co.: "Jimmy is head honest, extraordinarily energetic, and competitive." That is true of Lee whether on the slope, tennis court, or in the marketplace. "He is a wonderful person to go into battle with. He likes to win," says Stephen A. Schwarzman, president of Blackstone Group. Says one rival: "When he is competing, he is trying to out-glide and knife you. He is a very aggressive competitor." But Lee says he lives

to General Motors Corp.—his proudest achievement. "Jimmy brings good market judgment, market muscle, and a strong staff," says GM Treasurer John D. Finnegan.

Lee's seniority and access to his boss, Vice-Chairman William B. Harrison, and to Chairman and CEO Walter V. Shipley give him authority to make quick decisions. "When he takes hold of a deal, you've got virtually the highest level of authority the bank there making the decision," says Robert M. Neumeister, CFO at Sprint PCS.

Lee is adept at executing tough deals fast. In 1995, when Union Carbide Corp. was about to spin off to the public its UCAR unit, Lee got a call from Schwarzman. Blackstone wanted to buy UCAR but needed up-front financing to stop the spin-off. Lee committed to underwriting \$1.1 billion of the price tag. He has thrived on forging close, long-term ties with such dealmakers as Schwarzman, Henry Kravis, Richard Rainwater, and Ronald Perelman. Says Perelman: "He's an old-fashioned banker who lends not just on the financials but also on the people."

Some rivals fault Lee's methods. To get investors and banks on board tough syndications, they say, Lee sometimes threatens to cut them from the next deal. Rivals also float stories that Lee gives preferential pricing under the table to lure reluctant banks to deals. Lee denies both allegations: "You can't sustain a business that way. Customers won't put up with it."

As a control freak who runs a tight ship, Lee is not always easy to work for. He is even harder to leave. Those who do may find themselves in a face-off with Lee, upset that they have violated the absolute loyalty he demands.

While there have been few problems with the 700-odd loans Chase leads globally a year, Lee is not infallible. In 1995, Lee led a \$1 billion loan to DreamWorks SKG—a startup venture of Steven Spielberg, Jeffrey Katzenberg, and David

Geffen. The company was well-capitalized and got investment-grade pricing, but it had no cash flow. Many banks balked, calling terms unrealistic and Lee starstruck. Some criticized him for being on DreamWorks' board. Critics say Chase had to keep \$400 million of the loans, although Lee says the amount is "substantially lower." He says it's common for senior lenders to be on client boards. And he lauds the deal's potential: "I knew that whoever was there at the beginning stood the best chance of being there during the golden years."

ARM-TWISTING. In 1993 and 1995, Chase led \$650 million of loans to Ronald Perelman's Marvel Entertainment Group. Late last year, the comic book company went bankrupt. Lee gathered some 150 lenders in a room and, after some arm-twisting and Perelman agreeing to add new money, the banks agreed to ante up \$100 million in new loans. Marvel bondholders allied with Carl C. Icahn have challenged that plan, but Lee expects banks to be repaid.

Some rivals claim that Lee's business-grabbing practices are undermining the loan market's profitability and raising risks, especially if the credit cycle heads south. (Lee blames the competition.) Take Chase's capture in 1996 of the lead position on a \$2 billion loan to Sprint Spectrum. The company had been working with Citicorp, J.P. Morgan, and Toronto Dominion Bank. But Lee swooped in with easier terms, lower fees, more money, and a commitment to underwrite the full loan. "We got a better deal, and it was better for our shareholders," says Sprint's Neumeister.

The real test of Lee's skill will be whether he can avoid being hurt by the next cycle of credit problems. Granted, loans now have more equity than they did in the late 1980s: 20% to 30% vs. 5% to 10%. And banks now keep less of each loan. Lee says he manages his business to reduce risk concentrations. He adheres to strict loan-holding limits and passes on dicey deals. Says Harrison: "We are in the risk business. We worry about everything, but we are still within the range of what is prudent."

Though Lee has detractors, even they credit him for getting Chase into the big leagues of corporate financing. "Love him or hate him, he knows what he's doing," says one. For now, all that matters to customers such as Time Warner's Bressler is that Jimmy Lee gets the job done.

By Alison Rea in New York

"We are using the loan business as a platform to build a new type of global competitor"

— JAMES B. LEE JR.
Chase Manhattan Corp.

the hokey maxim: "Be the best you can be, and do it daily."

Williams College economics major, joined the old Chemical 22 years ago but it wasn't until the 1990-93 credit crunch that he gained visibility, thanks to his decision to continue lending. Lee won kudos from big borrowers and long memories. In 1993, for instance, he led a complex \$25 billion loan

Competitors claim that Lee's business-grabbing tactics are undermining the loan market's profitability

DMG'S BRASH BIG-GAME HUNT

Deutsche Morgan Grenfell targets Morgan Stanley's tech clients

When Netscape Communications Corp. wanted to sell more stock last November, the fighting to handle the underwriting was fierce. Morgan Stanley & Co. wanted to hang on to the high-profile client it had taken public in 1995, while Germany's Deutsche Morgan Grenfell (DMG) needed the deal to pump up its fledgling push into technology banking.

DMG came up with a highly unusual and aggressive bid. As an alternative to selling Netscape's stock directly to its customers, DMG offered to buy the entire Netscape stock issue itself and then sell it to investors later. That would have meant more risk for DMG, a unit of Germany's huge Deutsche Bank, but less uncertainty for Netscape if the deal ran into a tough market. "I like the fact that we have a partner with deep pockets and long arms," says Frank Quattrone, chief executive of DMG's Technology Group. "Those who don't will lose market share."

Netscape, which declines comment, stuck with Morgan Stanley as lead underwriter, though it did enlist DMG as a co-manager. Says D. Rex Golding, new managing director of Morgan's technology group: "Frank and his team discovered that these ties are difficult to break."

"OUT THE WINDOW." The stakes are high in technology banking these days. But the intense rivalry between Morgan Stanley and DMG has raised the ante. Says Chuck Bay, chief financial officer for Pure Atria Software in Sunnyvale, Calif.: "It has shaken everything up. Everybody knew the hierarchy before. Now, that's out the window."

The skirmishing began in April, 1996, when Quattrone, Bill Brady, and George Boutros defected from Morgan Stanley to Deutsche Morgan Grenfell. Guaranteed fat pay packages lured all but one

member of Morgan Stanley's Menlo Park-based mergers-and-acquisitions crew and five other professionals to DMG.

Touting its team's decades of experience garnered at Morgan Stanley, DMG has grabbed some marquee assignments. It advised Ascend Communications Inc. in its announced \$3 billion bid on Mar. 31 for Cascade Communications Corp., which was counseled by Morgan Stanley. And DMG was just selected to lead manage the upcoming initial public offering of Amazon.com Inc., the Seattle-based online bookseller.

But Morgan Stanley is hardly down and out. The firm ponied up big bucks to keep its top-ranked analysts, rebuild its Silicon Valley staff, and retain most

of its premier technology clients, including Oracle, Applied Materials, and Hewlett-Packard. It remains the clear market leader in technology equity underwritings and M&A (table, page 8), while DMG is 17th, well behind most others, according to Securities Data. "I don't think anybody has really challenged Morgan and Goldman [Sachs & Co.] in technology," says Christopher Lord, an analyst at Amerindo Investment Advisors. Says Morgan Stanley investment banking chief Joseph Perella: "DMG is not the firm we spend a lot of time focusing on. We think about Goldman, Merrill [Lynch] and Lehman [Brothers]."

"CARE AND FEEDING." Still, part of the reason for Morgan's continued dominance in technology, say Silicon Valley observers, is that it takes new risks seriously. "They've never been been with the care and feeding of customers," says venture capitalist Richard Kramlich. Perella made three West Coast visits to see clients and helped land new business from companies such as Pointcast Inc., the hot Internet startup.

Last December, when DMG scheduled a conference in Phoenix a month before one was planned by Morgan Stanley in the same city, Morgan prepared a memo for investors comparing the two events. It noted that Morgan's conference was more industry specific and allowed investors more time with company executives, a claim DMG disputes. "They will throw any mud they can at us to slow us down," says DMG's Brady.

DMG, in fact, behaves differently, and not Morgan Stanley is on top. The technology group views itself more as a startup Netscape than a staid investment bank. Self-assurance has helped score some deals from former Morgan clients, including Apple Computer, National Semiconductor,



Isn't technology wonderful?

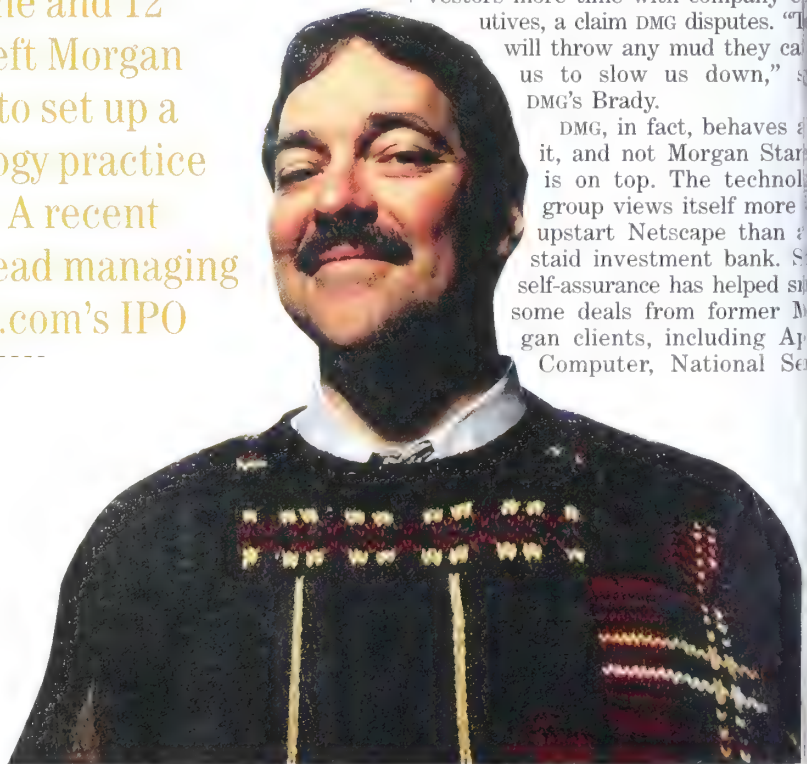
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A year ago, Frank Quattrone and 12 others left Morgan Stanley to set up a technology practice at DMG. A recent plum: Lead managing Amazon.com's IPO



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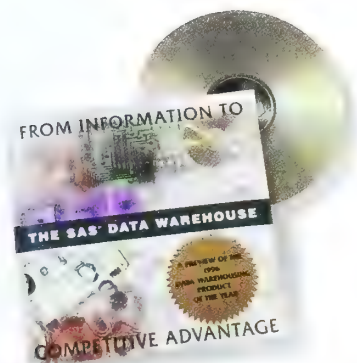
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conductor, and Intuit, as well as Goldman customers Baan and PeopleSoft. After losing \$10 million to \$20 million in 1996, Quattrone says DMG may book more than \$100 million in revenues this year. "That's significantly better than we expected for 1997," says W. Carter McClelland, CEO of Deutsche Bank North America. "The Europeans can't believe that this group is this successful this quickly."

DISTRIBUTION CONCERNS. DMG has had less success persuading companies to let it lead manage IPOs and equity deals. DMG's technology group has completed only two lead-managed IPOs—in part because some executives question the bank's sales and trading capability. Even some DMG boosters express concern. "Their distribution isn't where I'd like it to be," says Christos M. Cotsakos, chief executive of E*Trade Group Inc., whose IPO was co-managed by DMG. "They haven't traded our stock as much as we would have liked."

DMG says such worries are nonsense. Take the Amazon deal, for which virtually every major investment bank competed. Sources say Morgan Stanley had to bow out because of conflicts of interest with existing client Barnes

TECH WARS

TECHNOLOGY EQUITY IPOs

	1996	1997 YTD*
BILLIONS OF DOLLARS (RANK)		
MORGAN STANLEY	\$4 (1)	.132 (3)
GOLDMAN SACHS	2 (2)	.092 (6)
DEUTSCHE M.G.	.177 (17)	0 (-)

TECHNOLOGY M&A

	1996	1997 YTD*
BILLIONS OF DOLLARS (RANK)		
MORGAN STANLEY	\$51 (1)	\$14 (1)
MERRILL LYNCH	38 (3)	7 (2)
DEUTSCHE M.G.	2 (23)	2 (10)

*THROUGH APR. 1, 1997

DATA: SECURITIES DATA CO

& Noble Inc. Amazon was then drawn to DMG by its experience, research, and creativity, sources say. DMG even presented its pitch to Amazon in the form of a hardback book, with www.amazon.com printed on the book's spine. Amazon declines comment.

Meanwhile, the combatants continue to wrangle. "This is not a firefight," says Golding. "It's a war of attrition." Perhaps that's why DMG recently leased larger office space just down the road from Morgan Stanley.

By Linda Himmelstein in San Francisco, with Leah Nathans Spiro in New York

MUTUAL FUNDS

FINALLY, A COMMODITIES PLAY FOR THE LITTLE GUY

Oppenheimer's innovative vehicle relies on a futures index

The fear of inflation has pounded stocks and bonds mercilessly over the past few weeks. That's why OppenheimerFunds Inc. hopes to hit a gusher. On Mar. 31, it launched Oppenheimer Real Asset Fund, a new breed of mutual fund that resembles a bond fund but behaves as though it's a basket of commodities—and thus should be a stellar performer if inflation really does show up.

The fund's aim is to deliver a return that reflects the change in the Goldman Sachs Commodities Index (GSCI). That's an index composed of the futures prices of 22 different commodities from hogs to oil in rough proportion to the value of their production in the world economy. Energy futures make up 55% of the index, agricultural, 25%.

Even without a track record, the fund is generating a positive buzz among mutual-fund mavens. "It's an interesting product that many financial advisors have been searching for," says Lou Stanasolovich of Legend Financial Advisors Inc. in Pittsburgh. "There are times when financial assets are out of favor and real assets are in favor," says Don Phillips, president of Morningstar Inc. "Mutual funds need to address that."

GOOD TIMING. What's novel here is that Oppenheimer plans to earn the return by investing in "structured notes"—customized short-term securities whose prices are linked to the GSCI or to various commodities that are in the index. Only one-third goes into the notes, yet the price of the shares should behave as though the entire fund were invested in the index; the notes are structured so that every 1% move up (or down) in the index translates into a 3% change in the value of the note.

The remainder goes into short-term government securities, the income from which pays fund expenses and supplements returns. The fund also plans to use futures or options in small doses for portfolio management, not for large speculative bets on silver, corn, or hogs.

The timing of the fund's launch could not be better. But it's purely accidental. The fund had been in the works for years, says Russell Read, the fund's architect and lead portfolio manager. Part of that time was spent shepherding the unique fund through both securities and commodities regulators.

It's not the first mutual fund to

How the Fund Works

- ▶ One-third is in short-term notes whose returns are linked to the Goldman Sachs Commodities Index. The notes have a leverage factor of three: A 1% rise in the price of the index prompts a 3% rise in the value of the note.
- ▶ Two-thirds is in short-term U.S. government securities. They provide a floor for the fund.
- ▶ The fund can also use commodity futures and options as a temporary substitute for the notes.

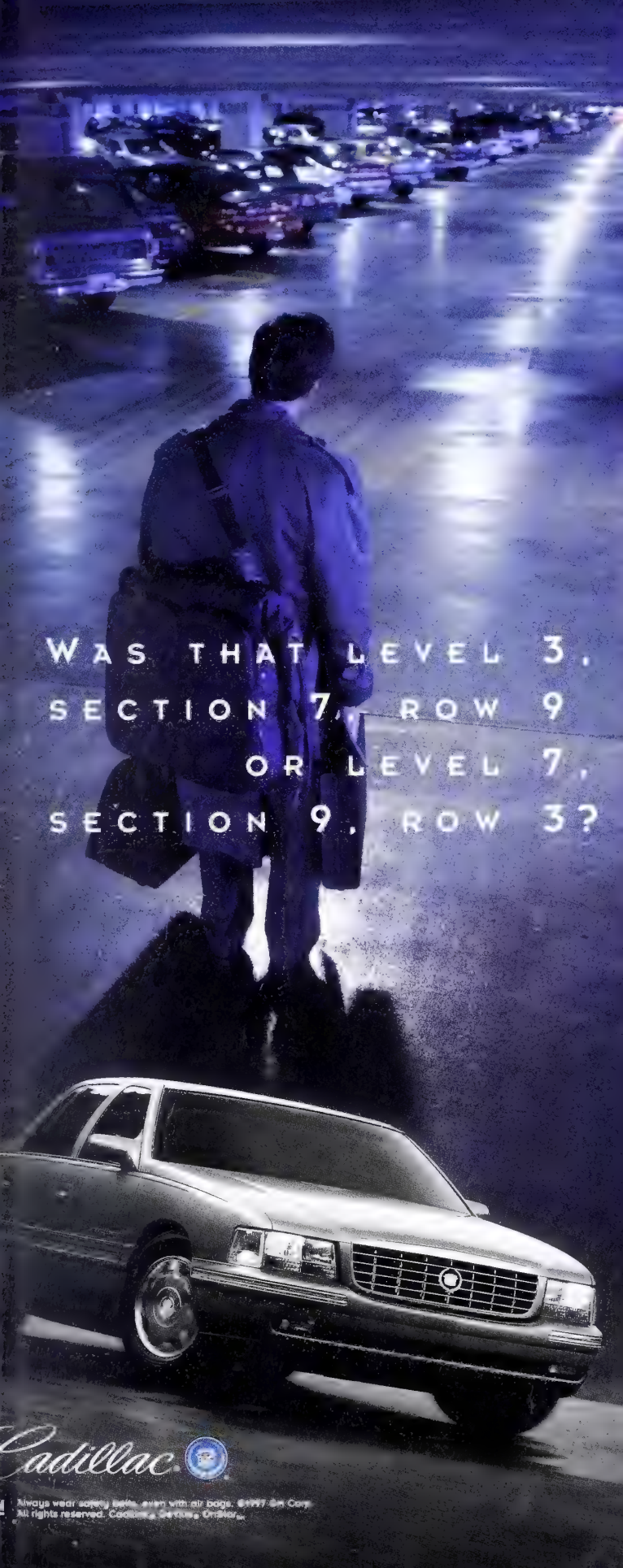
DATA: BUSINESS WEEK

tempt a pure play on commodities. But the others rely on equities. "Historically, gold- and copper-mining stocks tracked the commodities," says Read. But most other commodity stock funds do not. "Exxon tracks stocks, not oil."

High net-worth investors have invested in commodities futures funds. But those vehicles often require \$50,000 to \$100,000 minimums and annual fees can add up to 3% to 4% of assets, plus 20% of the profits. The Oppenheimer fund, on the other hand, has a \$10,000 minimum and the fees of load funds. Class A shares carry a 5.5% sales charge and 1.75% in expected annual expenses. Other classes forego the load but charge 2.5% in expenses.

Sol Waksman, whose Barclays Trading Group Ltd. tracks futures funds, applauds Oppenheimer's "innovative approach." But he says the fund is not a substitute for traditional futures funds. "It uses leverage and speculate on price movements. The Oppenheimer fund is just an index fund," says Waksman. Perhaps so. But for mutual-fund investors, any fund that gives them some shelter from inflation may be just the

By Jeffrey M. Laderer in New York



WAS THAT LEVEL 3,
SECTION 7, ROW 9
OR LEVEL 7,
SECTION 9, ROW 3?



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BY GENE G. MARCIAL

BETTER CONNECTION FOR PREMISYS?

The battered tech stocks are like a coiled spring poised to snap back, argues technology guru Mike Murphy, who is cherry-picking the disasters and getting fully invested in the vast tech universe.

One stock Murphy thinks is a screaming buy: Premisys Communications (PRMS), which hit 65 a share (or

116 times earnings) last May. It has slid since and is now at 8.

Adjusted for splits, that's where Premisys was when it went public two years ago. Momentum players, who had helped fire up the stock, bailed out when Premisys missed a quarterly estimate in July. Earnings, they noted, rose



MURPHY: Intent on cherry-picking the high-tech disasters

"only" 14%. The stock plunged 50% in the next three weeks.

In mid-March of this year, the stock got pounded again when Premisys warned analysts it would miss the Street's earnings estimate of 24¢ a share for the March quarter. Delays in shipments and a contract lost by a partner caused the shortfall. In two days, the stock dropped from 14 to 8.

But "we think most of the damage has been done to the stock price and that a bottom has been set in the 7-to-8 range," says Murphy, editor of the *California Technology Stock Letter*. His target at this point: 22. He sees the company returning to annual revenue growth of 45% by next year. It expects to be back on track by the June quarter, says Murphy.

This maker of integrated-access products for telecom providers was no slouch: Revenues in fiscal 1996 rocketed to \$73.9 million, up from 1995's \$30.9 million. And earnings jumped from 18¢ to 64¢ a share. But this year, some analysts have turned wary, says Chuck Hill, research director at First Call, and see lower earnings: 45¢ in the year ending June 30, 1997, and 43¢ in 1998.

Premisys was a pioneer in the early '90s with its integrated multiple-access communications server (IMACS), which rolls all of the front-end and back-end connections into one box. Premisys, says Murphy, expects to sign up five major customers by the September quarter. The company sells IMACS to equipment providers such as Motorola, Rockwell International, and Unisys, which incorporate Premisys' boxes into their systems that they in turn sell to customers.

'HI, MOM. I CAN SEE YOU ON C-PHONE'

Early birds in C-Phone (CFON) have had quite a roller-coaster ride: After trading at 2 to 4 for most of last year, the shares blasted off after New Year's, zoomed to 16, and are now at 11. What's next for this maker of PC-based desktop videoconferencing systems?

Whispers are that an investor group has just taken a 16% stake in C-Phone, which needed funds for its picture phones—C-Phone Home Video System. The investors have put in an initial \$5 million, according to one banker.

C-Phone's picture phone is a TV set-top box that lets caller and callee see each other on C-Phone-equipped TVs, connected over standard phone lines. C-Phone has signed a pact with MCI Communications to provide phone lines and other services for the home-video system. C-Phone's revenues will come from a fee of \$9 to \$20 a month, plus a charge of 30¢ to 38¢ a minute.

A WHOOSH FROM THE 'WIZ' DEAL



DATA: BLOOMBERG FINANCIAL MARKETS

electronics chain Nobody Beats The Wiz will begin marketing C-Phone's system in time for Mother's Day, May 11. The C-Phone will sell for \$350.

One C-Phone insider says that if C-

Phone sells just 25,000 units in fiscal 1998 (ending on Feb. 28), the company should produce revenues of \$10 million, vs. an estimated \$2 million for fiscal 1997. And this source says C-Phone should be in the black by then.

HELP FOR THE OLD FOLKS AT HOME

Get used to "assisted living," one of the fastest-growing segments in long-term care. It's an option for senior citizens who don't require round-the-clock medical attention but need some daily help with housekeeping, bathing, and dressing—in a residential setting. One company that some see emerging as a leading assisted-living provider is CareMatrix (CMD).

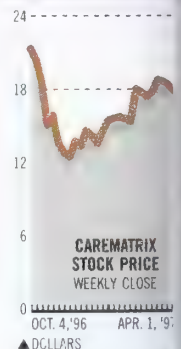
CareMatrix targets the upper-income market. It's "a rare high-growth, new technology company," says Andrew Pierre, a money manager at DFS Advisors in Boston. He notes that Abraham Gosman, CareMatrix chairman and a major stockholder, knows the health-care business and has a record of making money for shareholders.

Gosman founded Mediplex, another health-care outfit, and took it public in 1983. He sold it to Revlon a couple of years later at four times the initial public offering price of 6 a share. Gosman bought back Mediplex in 1990, at just 6 a share, and then took it public again in August, 1991, at 19. In 1994, he sold Sun Healthcare in the mid-20s.

St. Pierre expects that Gosman and his son Andrew, vice-chairman of CareMatrix, have a similar goal for the company: eventually selling it off. But right now, Andrew says, he and his father will pursue a growth strategy for CareMatrix, which operates 23 facilities in the Northeast, including special services for people suffering from Alzheimer's disease.

Sheryl Skolnick of San Francisco investment bank Robertson, Stephens expects solid CareMatrix earnings—30¢ a share in 1997 and 94¢ in 1998, compared with a loss of 36¢ last year.

ROSY FUTURE FOR LONG-TERM CARE



DATA: BLOOMBERG FINANCIAL MARKETS

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SUPERSTORES, MEGABOOKS—AND HUMONGOUS HEADACHES

With sales flat and returns piling up, many publishers are smarting

In late February, 300 fans packed into the Borders Books & Music superstore in Manhattan's World Trade Center where author John Grisham was signing copies of his latest thriller, *The Partner*. A lucky 200 emerged from the lunchtime gathering with autographed copies purchased at 30% off the \$26.95 list price.

But eager devotees willing to skip the brush with celebrity could do even better: That same day, as noted in a full-page *New York Times* advertisement, they could drop by Barnes & Noble as early as 7 a.m. and pick up a copy of *The Partner* at 50% off. Shrugs Barnes & Noble Inc. Chief Operating Officer Stephen Riggio: "It was just a special promotion that our buyers wanted to do." The lesson: Don't spit into the wind, and don't presume to upstage Barnes & Noble in New York City.

MAALOX MOMENT. With superstores clashing over customers and big-name speakers, the retail book trade is not for the faint of heart. Many independent stores are being pushed over the edge, but that is only the most visible of the factors roiling the book industry. Sales have failed to keep pace with the rapid growth of retail space. Retailers, who can return unsold books at purchase price, sent a flood of them back to publishers last year, depressing many publishers' 1996 earnings. Pricey book contracts based on fleeting celebrity and frantic bidding have proved hugely problematic. The promising but murky electronic future has many in book publishing reaching for the Maalox.

Consider the following:

■ Some 800 superstores have opened since 1990, with the top four chains—Crown Book Corp. and Books-A-Million Inc., along with B&N and Borders Group Inc.—opening some 190 stores during 1996 alone. Even though the chains closed mall stores, the net gain in retail space during 1996 was 20%, according to trade bible *Publishers Weekly*. Yet, according to the Association of American Publishers, total book sales in 1996 rose

by only 4%, down from 1995's 5.8% gain.

■ Publishers say returns of new hardcover books last year ran between 35% and 50%, compared with 15% to 25% ten years ago.

■ Earnings at several big publishers ranged from poor to flat in 1996. At HarperCollins, the book-publishing wing of Rupert Murdoch's News Corp., operating profits fell 66%, to \$18 million, for the first six months of fiscal 1997, ended Dec. 31, 1996. Penguin Books USA—whose parent, British-based Pearson PLC, in late 1996 bought Putnam Berkley Publishing Group from MCA Inc. and joined the two houses—anticipated a strong 1996. But recently, it discovered that unauthorized discounts had been given to some retailers, which will force the company to take a \$163 million pretax charge against earnings.

At Simon & Schuster, a subsidiary of Viacom Inc., earnings in the trade-book division rose only slightly. A 16.6% rise in overall operating profits, to \$217.2 million, was largely a result of professional and computer book sales. At Random House, company representatives say profits were thin, largely due to returns. (No figures are available because it is a division of privately held Advance Publications Inc.) "It was a case of winning the publishing war" with numerous bestsellers and notable books "and losing the business battle," says Chief Executive Alberto Vitale.

■ Meanwhile, competition among publishers for big hits remains intense, prompting astronomical ad-

vances. Random House paid \$20 million to \$25 million for a five-book deal with thriller writer Jonathan Kellerman. Viking Penguin spent \$4.2 million on O.J. Simpson prosecutor Marcia Clark's account of the trial, and Time Warner Inc.'s Little, Brown spent \$2.75 million for a memoir by Clinton aide George Stephanopoulos.

Bookstores aren't happy. "Nowadays nobody makes money on the bestsellers,"



ly no independent store does," says Mark Domnitz, chairman of the American Booksellers Assn. "The money deals don't help publishers because sales must be huge to rack advances. 'We used to say the best-seller would fund the rest of publishing we do,'" says Simon & Schuster's Romanos. "You could argue that today, it's the other way around."

The superstores grab an ever larger share of the retail market, independent stores are losing sales and going out of business. According to the *Consumer Research Study on Book Publishing*, in 1995—the most recent for which data are available—the superstores sold 26.2% of all consumer adult books, up from 24.6% in 1994. Non-book outlets, from mail order to book to warehouse stores, accounted

WHAT AILS THE BOOK INDUSTRY

BIG RETURNS Bookstores are returning more unsold books to publishers than ever

FAT CONTRACTS Competition among publishers allows big-name authors to command huge paydays

SUPERSTORES Retail space has expanded enormously—but book sales have not

EARNINGS SQUEEZE Profits are down as publishers try to cope with all of these changes

for 54.3% of 1995 sales. And only 19.5% of '95 sales were through independent stores, down from 21.4% in 1994.

Publishing's seemingly intractable problems constitute "a Gordian knot," in the words of S&S Trade Div. Publisher Carolyn Reidy. "In every single part of the business, there are problems," she says. "We were hit by a three-part whammy on returns." Superstores refined their computer models and reduced stock, many independent stores closed, and consolidation continued among wholesalers. "It's increasingly difficult to break a book out," says Romanos. Individual volumes get lost amid the 180,000 titles carried by many of the big stores. Books that don't get found by consumers get returned. Moreover, with roughly 50,000 new titles produced last year, each book has an ever shorter shelf life.

"WALLPAPER." Some blame the returns on the superstores. "The big stores treat books like wallpaper," states Peter Osnos, former publisher at Random House imprint Times Books. "What you have really is an overabundance of floor space," adds Random House's Vitale, pointing to the doubling, then tripling of retail space over the past several years. "And clearly the superstores haven't expanded the overall retail business because book sales have been flat for three years."

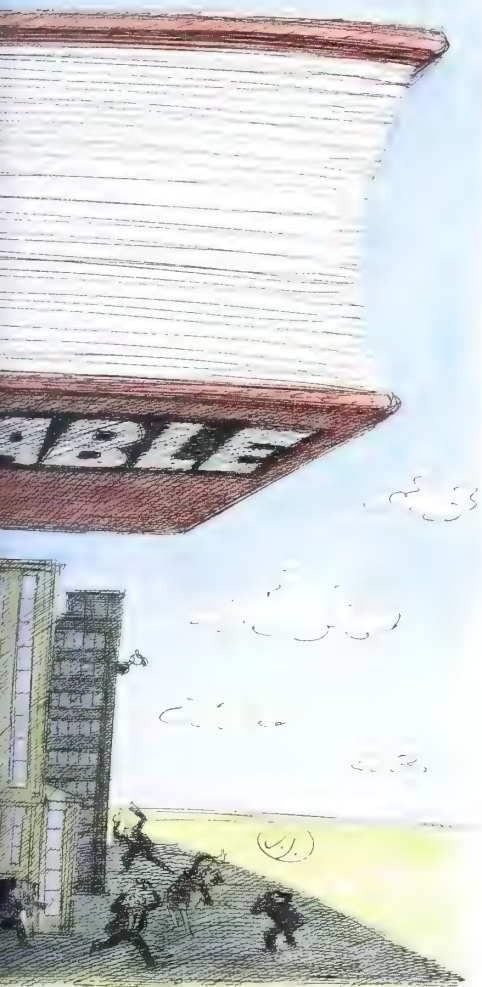
Big retailers deny they are responsible for the

surge of returns. Rick Vanzura, vice-president for planning and finance for Borders Group Inc., says his company's returns were not higher last year. "The main reason we have so many titles is that public interests have become more diverse," says Vanzura. Adds B&N's Riggio: "Returns cost the booksellers as much as the publishers. Most retailers traditionally mark down things that don't sell—and that's a model we're willing to move toward." For the fiscal year ended January 31, 1997, the largest chains did well, with B&N reporting net income of \$51.2 million on sales of \$2.45 billion and Borders net income of \$57.9 million on sales of \$1.96 billion.

Can this industry turn things around? Various solutions are being proposed. Some publishers say they will narrow their focus to genres where they do best. "We were publishing in a lot of categories in which we weren't doing a good job," says HarperCollins CEO Anthea Disney. HarperCollins executives also are trying to stimulate entrepreneurial thinking and swifter action—and there have been some recent staff cuts.

To lower returns, almost all publishers are reducing the total number of titles, often by 25%, and cutting initial print runs. They are also moving, albeit nervously, toward just-in-time inventory management. S&S's Reidy points to company experience with a mid-list book, Samuel P. Huntington's *The Clash of Civilizations & the Remaking of World Order*, as a paradigm of the new approach. Only 12,500 copies of that book were printed in the first run, but positive reviews and publicity built demand for the volume, prompting 10 more printings in increments of a few thousand each time. In the end, 50,000 copies were produced. Similar caution was applied to the printings of such hit books as S&S's *Angela's Ashes* by Frank McCourt and Random House imprint Alfred A. Knopf's *Personal History* by Katherine Graham.

The danger is that publishers won't have the inventory to resupply promptly when booksellers reorder. Writers, too, have doubts about this approach. Po Bronson, author of *Bombardiers* and *The First \$20 Million Is Always the Hardest*, who also has a background in book publishing, tells of a catch-22. "Bookstores have software that lets them look at wholesaler Ingram's inventory. If they learn Ingram has no copies of a title in stock, they won't order it. But then Ingram, having no back orders, doesn't request more from



the publisher. It's an "infinite loop."

And what of the fat paydays for certain authors? "It's a problem with no immediate solution," sighs HarperCollins' Disney. "Any house that needs and wants a best-seller will pay for one. And there are several new houses with lots of money to spend that are just beginning to build lists."

Increased profits would solve all ills. And while it's not exactly book publishing, several companies see potential gains from organizational synergies. HarperCollins often pitches projects based on successful books to its cousin, Fox Television, which is now producing a fall series based on the successful Dilbert books. S&S, which has capitalized on Viacom brands, such as MTV books and Nickelodeon books for children, also has had success with interactive games linked to so-called brand-name authors. One game, conceived by Tom Clancy and marketed under his name, became so successful that the author wrote it up as a novel, *Ssn*, which became a best-seller. That, in turn, became an S&S audio book.

WATERPROOF? Random House's Vitale disputes the worth of such synergies, but he is enthusiastic about electronic books. "Within the next few years, there will be an electronic device the size of a paperback that will permit you to download one or more books and carry them with you to the beach," he says. In anticipation of such developments, most publishers have become insistent on winning electronic-reproduction rights from authors. "Way back, the book industry gave away a valuable right—movie rights—out of ignorance," says S&S's Romanos, explaining that publishers don't intend to repeat such a mistake.

The future of electronic books is uncertain, but no one doubts the worth of another electronic phenomenon: Internet bookselling. S&S's Reidy points out that the I-way has "the capability of building communities of interest, such as that of Civil War buffs"—and of targeting such groups for book sales. Web book retailing currently is dominated by such purely electronic "stores" as Amazon.com, with its searchable 2.5 million-title catalog, and Britain's Internet Book Shop. But many independent stores, such as the San Francisco area's A



THE WRITE STUFF?

Once a reliable source of revenue, big-money deals have become a burden. Some recent ones:

NAME	MILLIONS	BOOK
JONATHAN KELLERMAN	\$20-\$25	Five-book deal (Random House)
MARCIA CLARK	\$4.2	<i>Without A Doubt</i> (Viking)
GEORGE STEPHANOPOULOS	\$2.75	White House memoir (Little, Brown)
DICK MORRIS	\$2.5	<i>Behind the Oval Office</i> (Random House)
FIRST-TIME NOVELIST MARGARET CUTHBERT	\$2	<i>The Silent Cradle</i> and a subsequent book (Pocket Books)
LIZ SMITH	\$1	Memoirs (Hyperion)

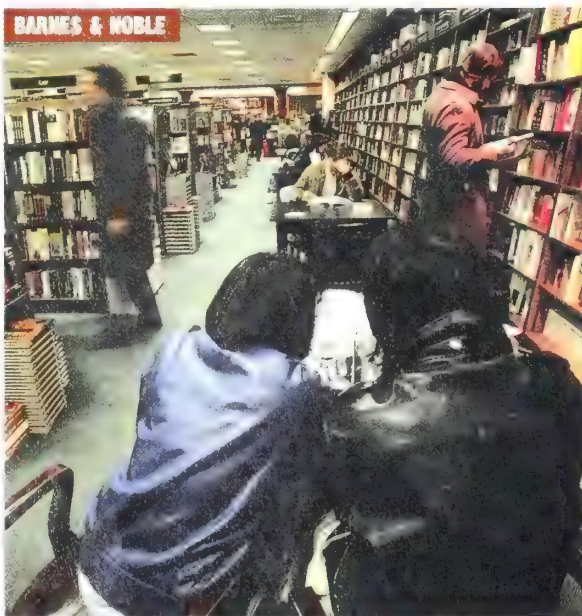
DATA: PUBLISHERS WEEKLY, SIMON & SCHUSTER, JONI EVANS

Clean, Well-Lighted Place for Books and Atlanta's Oxford Books, currently have large, searchable online databases and online ordering. Both B&N, which currently sells books through America Online, and Borders say they soon will be selling on the Internet. Finally, both Random House and S&S are selling some titles directly through their Web pages.

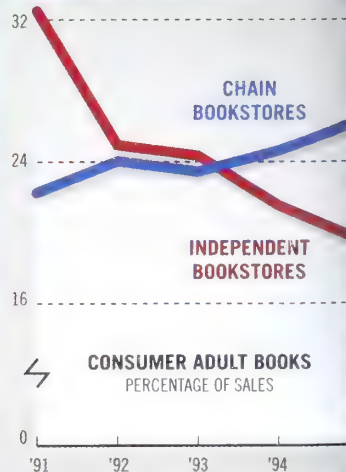
And maybe, just maybe, the book-reading public will expand. Since late last year, publishers have been looking to an unlikely angel—television, home of Oprah's Book Club. Oprah Winfrey, it turns out, has an appetite for recent fiction and has made several books the

subject of televised discussions. Fans getting a surprise Winfrey novel include Jacquelyn Mitchard's *The End of the Ocean*, which in November surged to the top of the *New York Times* Best-Seller List, and, more recently, Wally Lamb's *She's Come and Gone* and Ursula Hegi's *Stones in the River*, which took turns occupying the No. 1 spot on *Publishers Weekly* list. Problem is, Winfrey likes to her picks a surprise. It's enough to publishers an ulcer—but if all troubles were like this one, they happy to guzzle the Maalox.

By Hardy Green in New



CUSTOMERS MIGRATE TO THE SUPERSTORES



DATA: 1995 CONSUMER RESEARCH STUDY ON BOOK PURCHASE

WHERE THE ACTION IS: OUR HOMETOWN

guides are a hot market enticing myriad big players

Planning a Saturday night to remember is a mouse click away. Imagine—hopping onto the Internet to find out about all the local happenings: movies, concerts, restaurant events, even the dates of League games. Want tickets to Morrisette or the Detroit Red Sox? Just click on the performing arts, call up the floor plan, and choose

The digital land rush is under way. On Apr. 3, software giant Microsoft Corp. launched Sidewalk, a local arts and entertainment guide. This first appears in Microsoft's backyard, Seattle, but it will be followed by a dozen other cities, including New York and Minneapolis, by yearend. The veterans are also stepping up the pace. Digital City, a joint venture of America Online Inc.

meanwhile, is urging its affiliates to wait for a similar service it plans to start this summer. "Everyone and their brother is launching a local-content site," says analyst Bill Bass of Forrester Research Inc. "We're going to see a bloody battle with more losers than winners."

Why all the fuss over local doings? Today we spend 80% of our time—and money—within 10 to 15 miles of home. Companies with ambitious Web plans want to tap into the \$60 billion to \$80 billion a year spent on local TV, newspaper, and classified advertising. Even if the online sites grab just 1% of local newspaper ad revenues, that would translate into \$345 million—more than all online advertising in 1996, says Internet analyst Paul W. Noglows of Hambrecht & Quist Inc. And that doesn't count transactions. As more Web surfers buy tickets or products on the local Web sites, cybertowns hope to take a cut of the transaction revenues.

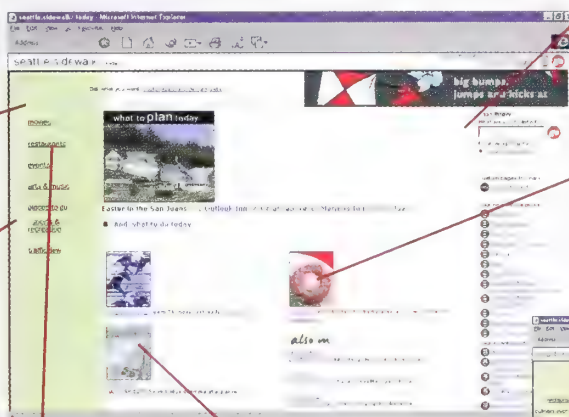
RIGHT THINGS, BIG NIGHT

MOVIES

Movie buffs can find film locations and meetables

SPORTS & CREATION

Checkers can find everything from basketball games to where to hike and bike



ARTS & ENTERTAINMENT

What's hip and happening on the local scene: listings, reviews, seating maps, and ticket-ordering services

TRAFFIC VIEW

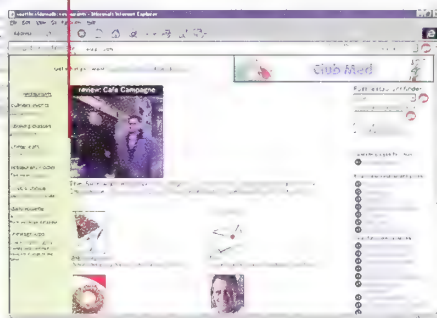
Check for local traffic conditions before you leave for the office

CUSTOM-TAILORED

Put in your interests for your own personalized city guide, or even let the PC notify you when, say, your favorite band hits town

RESTAURANTS

Hungry? Peruse a list of options—complete with menus, write-ups, and directions



seats. And no more scrabbling for a nearby restaurant. Tap on a map and view the possibilities, complete menus and reviews, then zap in reservation.

Welcome to yourtown.com—Web sites have a handle on everything local the theatrical sublime to the ad of the nearest dry cleaners. Today, there are dozens of these guides, from net startups such as CitySearch (Yahoo!) to a host of Baby Bells each going to turn their online "yellow pages" into cybertowns. They are about to get plenty of company.

and Tribune Co., will outline plans later this month to move its 13 cities now on AOL onto the Web. CitySearch plans to expand from seven cities to 20 this year.

"BLOODY BATTLE." And don't forget television broadcasters. Time Warner Inc. is signing up local TV stations to become affiliates of its CityWeb service announced in January. The affiliates will contribute local programming, as well as airtime, that Time Warner can resell to advertisers. In exchange, they get access to CityWeb's national content, such as CNN Interactive. NBC,

For now, traditional community players, such as newspapers and TV stations, are pitted against the Internet interlopers. Market researcher Forrester figures that advertisers will shift \$1.5 billion in local spending from newspapers and other conventional media to online ads by the year 2001—with the heaviest hit suffered by classified ads. "It's the newspapers' market to lose," says analyst Mark Mooradian at Jupiter Research Inc. in New York.

And maybe too easily. The local market has long been served by newspapers, city magazines, and TV and radio

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To compete, local newspapers would have to be as thick as a phone book

stations. But the Internet has a big advantage over traditional media: unlimited space. Web sites can hold hundreds of thousands of listings, including photos and reviews, that would make a daily newspaper as thick as a phone book. What's more, Web listings can be easily searched and cross-referenced.

SHADOW OF A GIANT. Add in the deep pockets of some of the Internet players and phone companies, and it's no wonder local newspapers and TV stations are worried. Take Microsoft. Analysts who have seen previews of Sidewalk give it high marks for its easy-to-navigate design and for its savvy use of Microsoft technology, such as the company's street-mapping software. This has already helped Microsoft sign up national advertisers, including Barnes & Noble Inc. and United Airlines Inc., that will tailor their ads to particular regions.

But Microsoft's biggest advantage is its sheer size and staying power. The software giant says it will spend hundreds of millions of dollars over the next few years on its expanding Internet media empire. At Sidewalk, that translates into enough staffing—15 to 25 people in each Sidewalk city, including big-name editorial talent—to scour the local arts scene and write it up.

Sidewalk has yet another plus: It will benefit from links and cross-promotions with other Microsoft Internet properties, such as MSNBC, the TV and online news joint venture with NBC. It's also considering creating local versions of its Expedia online travel service and CarPoint auto-buying guide that could be offered with Sidewalk.

Most of all, with Microsoft's \$9 billion cash pile, Sidewalk can afford to lose money for a few years until there is a critical mass of people—and advertisers. "This is not about turning a profit in 1997," says analyst Mooradian. "This is about companies positioning themselves for a market that will come to fruition in three to five years."

For companies trying to build cyberhoods, such as Microsoft and Digital City, that means quickly establishing a

local presence and brand. Meanwhile, traditional local players are scrambling to learn the ways of the Web.

It adds up to steep investments with little near-term return. Digital City CEO Paul DeBenedictus says a local guide can become profitable within two years, but Digital City plows profits back into the company to launch additional sites. He predicts the company will become profitable in three years. CitySearch is in investment mode, too. It has been through three rounds of financing since its founding two years ago, raising \$35 million. Conn hopes to raise more money in the public markets later this year.

Part of the CitySearch formula for

er, are likely to match up local brands with companies that have Web know-how. CitySearch has already discovered this. Its strategy is to create sites that offer a full range of community information, from volunteer opportunities to arts and entertainment listings. To that end, CitySearch sets up sites for nonprofit groups for free. It also helps small businesses, such as dentists and restaurants, create extended ads—sites that hold pages of services, prices and photos. CitySearch charges \$30 a month to run the site.

Digital City is also making friends in the neighborhood. The service has 80 local partners, including

newspapers. Until recently, most of them were properties of the Tribune. But under a new affiliate program, the company has signed up the first major non-Tribune newspaper, the *Minneapolis Star Tribune*. "Partnering will be a big advantage for us," says Digital City's DeBenedictus.

TOP BILLING. As for Microsoft, Frank Seltzer, Sidewalk's product

manager, says the company will begin where it makes sense. So far, however, Microsoft has announced few partnerships, and when it has, the Sidewalk brand has taken top or sole billing. Microsoft wants to develop the mindshare that you come to them for local information," says Adam F. Leff, vice president of business development for AdClassified Network Inc. in New York, which helps newspapers put their classifieds online. That, he says, will take the newspaper out of the loop."

Newspapers are sensitive to the threat. "We have brands that are 100 years old and that are very strongly recognized," says Charlene Li, director of interactive media for Community Newspaper Co., an organization that represents 120 papers in eastern Massachusetts. "We want to make sure we preserve that."

As newspapers and their rivals vie for the Web fight it out, one thing will be preserved: lots of options for getting the latest on the local scene.

By Amy Cortese in New York

Coming Soon to a City Near You

SITE

CITYSEARCH

www.citysearch.com

DIGITAL CITY

www.digitalcity.com
(and on AOL)

SIDEWALK

www.sidewalk.com

PARENT COMPANY & DESCRIPTION

CitySearch: Backed by high-profile investors, such as AT&T and Goldman Sachs, it plans to grow from 7 cities today to 12 by yearend.

America Online & Tribune: The granddaddy of local sites, it now has 13 cities online on AOL and is moving to the Web late this year.

Microsoft: Arts-and-entertainment focus. Will launch in 10 to 15 cities this year, starting with Seattle on Apr. 3.

success is focusing on midsize yet promising markets that rivals might overlook. On Apr. 7, for example, it is opening a site for Salt Lake City—where 57% of households have PCs and where there are not yet any competing online city guides. "There's no reason to believe this is a winner-take-all medium," says Conn.

Newspaper publishers couldn't agree more. Many are scrambling to establish an online presence. There are some 369 newspapers online today, offering varying amounts of local information, but only a smattering—including the *Washington Post*, *Los Angeles Times*, *San Jose Mercury-News*, and *Chicago Tribune*—offer comprehensive community sites. Many papers, especially smaller ones, plan to band together or team up with a larger partner to share costs. That's the idea behind New Century Network, a nationwide chain of local newspaper sites formed by Cox Communications, Knight-Ridder, and Times Mirror.

The most successful pairings, howev-

TO DO

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WORK OUT
~~PICK UP CHAIR~~
~~TEE TIME ... 7 AM~~

SALMON FOR BBQ
~~LUMBERYARD - DECK SUPPLIES~~
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Science & Technology

TELEVISION

A TECHNOLOGY GROWS IN BROOKLYN

LMDS offers wireless cable TV—plus Net and phone service

The cutting edge in wireless technology can be found not in Silicon Valley but in Brooklyn's Brighton Beach. This Old World enclave of Hasidic Jews and Russian immigrants is home to the world's only very-high-frequency wireless cable-TV system. CellularVision USA Inc. is beaming 49 channels of TV programming to 12,500 customers for a monthly rate that's about 30% less than traditional cable.

hertz (Ghz)—nowhere near other signals—it can provide Internet access, videoconferencing, and, most significantly, phone service. “People think [LMDS] as wireless cable delivery, as used in Brooklyn,” says Yankee Group Inc. analyst John Aronsohn. “But it’s more versatile.”

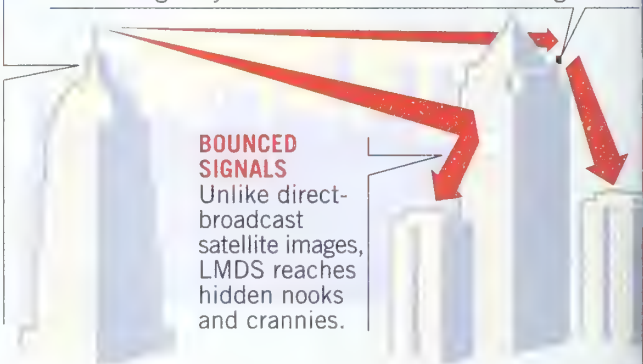
So far, LMDS is little more than a blip on the radar screen of the telecommunications industry. But a recent Federal Communications Commission decision will change

WHY EVERYONE'S TALKING ABOUT LMDS

REPEATERS amplify signals and relay them to buildings beyond the transmitter's line of sight.

LMDS TRANSMITTER beams video entertainment, or Web pages, to homes or offices. High-frequency transmission boasts better image quality than cable TV.

BOUNCED SIGNALS Unlike direct-broadcast satellite images, LMDS reaches hidden nooks and crannies.



Brooklyn residents might wonder what's new. The technology, called local multipoint distribution service (LMDS), looks a lot like an older form of wireless cable TV that has been tried by Pacific Telesis, Nynex, and Bell Atlantic. That system, called MMDS (for “multichannel”), has met with limited success, in part because the lower-frequency signals often collide with wireless phone transmissions in a similar range. Brooklyn viewers might also wonder how LMDS differs from another existing system—Direct Broadcast Satellite television (DBS), with 150 channels.

RADIO DAYS. The difference is, this is more than just TV. Unlike DBS or the older multichannel systems, this new technology allows two-way communications. Operating in a huge swath of radio spectrum at a frequency of 28 giga-

that. The agency said that it will auction off 1,000 licenses for LMDS in about three months. The licenses will cover more spectrum than all of the FCC's other radio-wave auctions combined. Licensees will have access to the same transmission capacity as fiber-optic cable, allowing them to deliver 200 video channels and a full slate of interactive voice and data services—and at a lower cost per subscriber than DBS. Local phone monopolies and cable operators will not be allowed to purchase LMDS licenses within their operating regions for the next five years, so they won't be able to compete. “As the largest two-way wireless service ever sanctioned for nationwide deployment, LMDS will leapfrog [existing] networks,” says David Mallof, president of WebCel Communications Inc., a Washington-based startup.



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British Columbia, Canada

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Science & Technology

that is planning to bid on the licenses.

The FCC auctions are sweet relief for CellularVision, which has been developing the technology for 11 years. CellularVision Chairman and CEO Shant S. Hovnanian and his father, Vahak, a CellularVision director, were in the homebuilding and cable-wire installation business in 1986 when a friend introduced them to Bernard B. Bossard, a microwave engineer. Bossard had invented a way to pack the unused 28-GHz region of the radio spectrum with more high-quality voice, video, and data than other types of wireless transmission. Unlike

communications LP, to license the technology outside the U.S. Nineteen countries have signed up so far, including Russia, Thailand, and the Philippines.

CLEAR PICTURE. In the U.S., however, cable TV is the immediate target. In its digital form, LMDS offers image quality superior to what most cable-TV subscribers receive over standard coaxial cable. The technology also delivers faster Internet connections than the new and much hyped cable modems. With a standard \$200 modem card inserted into a PC, LMDS companies say subscribers will be able to cruise the Internet at



MAKING WAVES

**CellularVision CEO
Hovnanian with
low-cost, easily
adjustable LMDS
antennas that can
be mounted on a
window**

satellite broadcasts, radio waves would not require a direct line of sight, but the signal at this high frequency usually breaks up or fades out in bad weather. Bossard figured he could overcome this problem by repeating the signal over and over in very small regions, or cells.

The Hovnanians originally formed CellularVision with their own money and in 1993 sold 4% stakes to Bell Atlantic and J.P. Morgan and 2% to Philips Electronics. CellularVision sold 18% of its stock to the public in February, 1996, at \$15 per share; delays in rolling out the system have caused the stock to drop to around \$10.

Bossard, now chief technology officer, spent two years putting on the final touches before applying for an FCC license in 1988. His method: Use devices called repeaters to pick up, amplify, and retransmit the 28-GHz signals within a cell with a three-mile radius. The repeaters bounce the signals off buildings so that all the nooks inside urban canyons can be reached. The antenna, a six-inch square panel, can be placed inside a window and is easily adjusted.

The low cost of the system is particularly attractive to developing nations. To tap this market, CellularVision formed a private holding company, CellularVision Technology & Tele-

speeds as high as 54 megabits per second—twice as fast as the latest cable modems. CellularVision just started offering high-speed Internet access, along with 14 channels of business news, to corporate subscribers in Manhattan.

Cable companies can't be counted out yet. Time Warner Inc. and Tele-Communications Inc. have been slow to launch commercial cable-modem service, in part because of a lack of equipment standards. But the cable-TV industry finally agreed on specifications. "We'll see the cost of cable modems come way down," predicts Henry T. Nicholas, president of Broadcom Corp. in Irvine, Calif., a maker of modem chips.

The LMDS pioneers have their eyes on more than the Internet. Hovnanian says his Brooklyn system should be offering wireless phone service and two-way data within six to nine months—the company is currently negotiating interconnection agreements with Nynex Corp. CellularVision is also holding talks about forming a partnership for bidding in the LMDS auctions. "We're not wireless cable," boasts Hovnanian. "We're a brand new industry." As they might say in Brooklyn, who knew?

*By Catherine Arnst, with Neil Gross
in New York*

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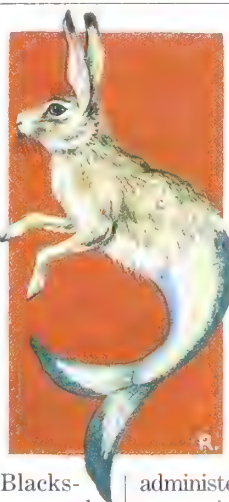
SOME SEMICONDUCTOR MAKERS WANT TO COMBINE TWO MATERIALS TO PRODUCE SOMETHING that can't be made from a single material, such as ultraviolet light-emitting diodes (LEDs), they have a limited menu of choices. That's because of the so-called lattice mismatch—the difference in spacing between the atoms in various chip materials. Even 1% mismatches rapidly multiply into strains that result in material flaws—and defective LEDs. For many combinations, the mismatch factor climbs to 20% or more. Now, researchers at Cornell University seem to have found a way to do the impossible. And it's so simple that materials scientists are dumbfounded. "Even we don't understand why it works so well," admits Felix E. Ejeckam, a Ph.D. student whose computer simulations indicated that the "too-easy" idea from Yu-Hwa Lo, a Cornell associate professor of electrical engineering, just might work. It boils down to this: Take a very thin film of gallium arsenide and place it on a gallium arsenide wafer. Rotate the film about 10 degrees out of lattice alignment, then iron it down with heat and pressure. Now, a badly mismatched material can be grown atop a buffer layer, and lattice-mismatch strains are somehow passed through the buffer to the bulk substrate, where they cause no harm. Chipmakers are excited by the technique because it also promises a new silicon foundation for computer chips. □

FROM THE FOLKS WHO BROUGHT DOLLY

IT HAPPENS WHEN YOU cross a rabbit and a salmon. It goes well at the U.S. Department of Agriculture's PPL Therapeutics PLC—the Scottish high-tech company that helped create Dolly, the cloned sheep—the answer will be a limitless supply of a valuable osteoporosis drug. Researchers, fresh from their success with Dolly, have taken the wraps off a rabbit whose chromosomes bear a transplant-

ed salmon gene that codes for the protein calcitonin. This protein is widely used to reduce the crippling bone loss that afflicts roughly one-third of all women in their 70s. Sales of just one such product, Novartis' calcitonin nose spray, topped \$200 million last year.

Researchers at PPL Inc.'s lab in Blacksburg, Va., led by general manager Julian Cooper, se-



lected a salmon gene because it had already been identified and studied. Just 28 weeks after the gene transfer, calcitonin was detected in Babe's milk in relatively high concentrations. And unlike most proteins produced in so-called transgenic animals, which require extensive processing before they can be

administered, Babe's calcitonin occurs in a form that's effective for humans. *Neil Gross*

FOR THE APPIAN WAY, HIT COMMAND-A

IT WASN'T BUILT IN A DAY. Constructing it in virtual reality is no snap, either. The ambitious Rome Reborn project at the University of California at Los Angeles plans to make a multilayer virtual reality scene that spans the centuries from 850 B.C. to 450 A.D. Archaeologists, architects, historians, and other researchers will be able to click on a spot and peel the

virtual reality "onion" to step back in time.

The project won't be completed until about 2020. But Imperial Rome of 450 A.D. will spring to life again in time for the Eternal City's celebration of the new millennium. In multimedia kiosks around the city, people will be able to prowl the Colosseum's dungeons, stroll through the Roman Forum, and listen to toga-clad ac-

tors. This first model will be sold on CD-ROMs to help defray the project's cost—as much as \$20 million.

Rome Reborn was started in 1995 by a multidisciplinary group of UCLA professors. When they learned of similar efforts at Infobyte, an Italian multimedia company, the groups joined forces. Infobyte expects to finish its model of the Colosseum within weeks. UCLA plans to

unveil its reconstruction of the Trajan Forum at the opening of the new Getty Museum in Los Angeles late this year. *Monica Lerner*



INNOVATIONS

■ Nitinol is a curious alloy discovered in 1963. No matter how it is deformed, it springs back to its original shape when heated. Now, researchers at Virginia Polytechnic Institute have found a new use for Nitinol: embedding fibers of it in polymer composites. The result is a lightweight armor that could be used for bombproof air-cargo containers.

■ For decades, market researchers and statisticians have lamented their inability to deduce individual behavior from data on groups. But Gary King, a professor of government at Harvard University, has come up with a formula that finally cracks this nut. Details are in King's book, *A Solution To The Ecological Inference Problem*, from Princeton University Press.

■ Tera Computer Co., the Seattle outfit that hopes to create a family of new supercomputers (BW—Nov. 11, 1996), claims its prototype has set a speed record for one important type of software operation. The company says its integer-sort mark is more than 10% faster than the old record on a T90 supercomputer from Cray Research Inc.

EDITED BY EDWARD C. BAIG

TIMESHARES: THEIR TIME HAS COME

Talk about a loser reputation. For years, timeshares, in which people typically bought the right to stay at a ho-hum resort for the same week every year, were hustled

REAL ESTATE TIMESHARES

by small independent developers. These outfits would often lure prospective buyers with gifts and arm-twisting sales pitches. Many customers, expecting their equity to appreciate like other real estate, got burned.

Today, thanks in part to the increasing presence of bigger players such as Walt Disney and Marriott International, the timeshare industry is shedding its unsavory image and even its name—it's now called "vacation ownership." With sale prices ranging from \$4,000 for a one-bedroom Ramada suite off season to \$60,000 for a three-bedroom villa at Disney World over the Christmas holiday, these brand-name companies are now selling real vacation packages, not just real estate.

SOUPED-UP. This new strategy is helping to revitalize an industry that has increased in size to 3.5 million households worldwide, up from 1.8 million in 1990, according to the American Resort Development Assn., a Washington (202 371-6700) trade group. Part of the appeal is the souped-up quality and the more desirable locations. Gone are many of the old, cramped hotel-unit conversions and onetime condominium complexes that lack pools and other resort amenities. A two-bedroom villa at Marriott's Manor Club (757 258-5500) in Williamsburg,

Va., for instance, costs \$8,500 to \$16,200 a week, depending upon the season, and sports a whirlpool tub, a fireplace, a utility room with washer and dryer, and three television sets. The residents at

Westgate Vacation Villas (800 846-4253) in Kissimmee, Fla., may use any of the facility's 10 pools, 10 whirlpools, and 10 kiddie pools.

The accommodations are intended to shed that "hotel" feel, however. Few of the places offer room service. Instead, linens and cutlery are on hand. A maid will generally clean up only at the end of your stay—in preparation for the next owner's arrival. The one hotel

mainstay may be the phone bill. In some cases, you'll have to use a calling card, or else pay jacked-up prices, especially for long-distance calls.

Timesharing used to mean taking all the spontaneity out of a vacation because you had to spend the same week at

the same resort, year after year. This is no longer the case. Using an exchange network—the two biggest are Interval International (800 622-1861) and Resort Condominiums International (800 481-5738)—you can swap your timeshare rights for someone else's unit at a different resort anywhere in the world. You'll pay an exchange fee—about \$100 for domestic trades and up to \$133 for international trades—for the privilege, on top of an annual membership fee of about \$20. But whether you can actually swap for the luxury condo at Vail, Colo., that you've been eyeing depends largely on what other timeshare owners have put in the exchange



—and the value of particular unit.

me timeshares still con- business the old-fash- way. Vistana (407 239- for example, offers a week at three different s in Florida. But, like other operators, it also the more popular ng time" option. Under arrangement, which is into the purchase price, buy a week within a to-four-month season. year, you can reserve ever week you prefer a that period. (Reserva- are granted on a first- first-served basis, so ssible you won't get the week you would like.)

pose you don't feel like oning at a resort next That may not present a em if your timeshare oper offers a vacation or a points-based pro- Instead of using your s stay at a Hilton Ho- resort, you can convert allotted time into s, which may be used, other year, toward the ase of airline tickets, a rd Line cruise, cars ls, even gaming chips Hilton casino. Disney Marriott offer similar Of course, this extra ility may cost you You must be a mem- of Hilton Grand Vaca- Club (\$85 annually) to advantage of the points m.

S PITCH. Whether your hare developer employs ats system or not, you'll ave to pay an annual enance fee to cover the rty taxes, upkeep, and eeping—even when you show up. The average y payments range from o \$350, while the fees at end properties may reach All may rise over time. spite the industry's im- ed reputation, you still t have to sit through a y-duty sales pitch. If the ng is off-site, be sure to out the resort in per- Some developers offer -vacs," promotions that

let you stay at the resort (if there's room) or a nearby ac- commodation for a cut-rate price in return for attending their 90-minute sales presen- tation. Should you succumb to the pressure, you'll gener- ally have 10 days to change your mind.

Most developers offer fi- nancing. Generally, the buyer will be expected to put 10% of the price down and to pay off the loan in seven years at an interest rate of some 12% to 16%, says Frank Mahan, assistant vice-president at Litchfield Financial, a Stam- ford (Vt.) lender, most of whose clients are timeshare

eigners are generally not al- lowed to hold deeded owner- ship. In Aruba, for instance, Marriott timeshare owners have 60 years in which to "use" their purchased vaca- tion before the agreement ex- pires. Similarly, Disney gives all timeshare buyers a deeded real estate interest that ex- pires in 2042.

If you've outgrown the timeshare, your only recourse may be to sell. Unfortunately, as much as timeshares have changed, the resale market has not matured yet, says Mario Collura, president of TRI West, a Los Angeles real estate brokerage specializing

NOW LOOK WHO'S OFFERING TIMESHARES

Disney An annual allotment of points lets you break a week's vacation into short- er getaways in Hilton Head, S.C., or Florida. Rights expire in 2042. Cost: \$9,413 (one week in a one-bedroom suite, low- season) to \$60,000 (Christmas week in a three- bedroom "grand villa").

Hyatt Operates Sunset Har- bor, a 40-unit resort in Key West, Fla. Plans to add further resorts in Colorado, Florida, Nevada, and Puerto Rico. Cost: \$12,000 to \$25,000 (for a two-bed- room/two-bath unit depending upon the season).

developers. Depending on the purchase price, you may want to finance it yourself with a home-equity loan.

Before you sign, make sure that you know what you're buying. Most domestic time- shares nowadays give you a deed to the property. That means you own it and can bequeath it to your heirs. But anywhere outside the U.S., you may simply get a right- to-use certificate, because for-

Marriott Has 30 prop- erties in 15 locations. Every other year, you can trade in your annual rights for points toward airline tick- ets or rental cars. Cost: \$8,500 (two-bedroom in Williamsburg, Va., low season) to \$29,900 (two- bedroom in Utah during Christmas week).

Hilton Runs 17 resorts in Florida, plus the flagship Flamingo Hilton in Las Vegas. Members can borrow up to one future year's allocation of points. Cost: \$10,000 (for a one-bedroom unit in low season) to \$25,000 (two- bedroom/two-bath during Christmas week).

in timeshare resales. Gener- ally, you can expect to get about half of your purchase price, he says. More upscale properties, however, may gar- ner more.

Many developers won't get involved in the resale aspect until they have first sold all of their units, which may mean that you'll have to try to dump the place yourself. That can be difficult because you're usually selling an out-

of-state property, so it's not as simple as planting a For Sale sign on the front lawn and waiting for buyers to knock on the door. Licensed brokers do handle resales, but some of them charge an up-front fee of \$300 or more just to list your property. You might be better off working with commission-only bro- kers—even though they may charge a hefty 30%. Presum- ably, such brokers will work harder to sell your timeshare because they won't get paid otherwise.

OVER THE INTERNET. Collu- ra's firm runs an annual auc- tion that accepts bids by phone or mail. These are usu- ally distress sales, in which properties go for 75% off the original price. That's a bar- gain, but don't expect to make a killing on a future sale. You might get back what you paid.

One of the best places to sell or shop for a used timeshare may be over the Internet. Timeshare Users Group (www.timeshare-users-group.com) offers resort re- views and classified ads to its members for \$15 per year. *TimeSharing Today*, a bimonthly newsletter (\$18 for a two-year subscription; 800 342-7311), provides tips on buying and selling, indus- try news, and resort report cards. Its classified ads are also posted free on a Web site (www.timesharing-today.com).

Keep in mind that a time- share vacation will cost a bit more than appears on paper: For one thing, you have to fork over the airfare every year to reach your destina- tion. This could be a smart purchase, however, if you plan on using the timeshare—or some aspect of the points/ex- change system—every year, and don't plan on selling it off for at least a decade. The advantage is that you're lock- ing in your vacations 10 years hence at today's prices. That may not be a bad deal once you realize that even rest and relaxation have their price. *Barbara Hetzer*

THE RIGHT WAY TO INVEST IN REITs

With the stock market potentially retreating and interest rates inching upward, real estate investment trusts—pooled funds that invest in income-producing residential and commercial properties—could be a welcome alternative.

Since these securities do not move in sync with equities, brokers stress the diversification appeal of REITs. The sales pitch is seductive: In 1996, the index of 198 publicly traded real estate investment trusts tracked monthly by the National Association of Real Estate Investment Trusts (NAREIT) returned 35.8%, including dividends, compared with 20% for the Standard & Poor's 500-stock index. Not only did REITs outpace most stocks, but they also offered better yields—some of them as high as 10%—than a lot of bonds.

IPO DELUGE. You may not want to write out that check just yet, though. The REIT index is up a paltry 1.2% through the first two months of 1997, compared with 6.76% for the Standard & Poor's index. Still, a flood of REIT initial public offerings will probably hit the market during the next decade. And as large blocks of U.S. real estate become "equitized," investment opportunities will dramatically expand, says Steven C. Leuthold, chairman of The Leuthold Group,

an institutional research firm in Minneapolis.

To find the best plays among the current crop of REITs, investors need to know where to look. First, check the prospectus or annual report for REITs with established track records. Although there are quality managers

READING REITs: WHAT TO LOOK FOR

EXPERIENCED MANAGEMENT

Check the prospectus or annual report for managers who weathered several real estate cycles.

OWNERSHIP STAKE

Get ahold of the annual report or 10K filing to determine whether management owns a sizable position in the common stock.

DIVERSIFICATION

Examine the annual report to make sure the REIT owns different types of properties (shopping malls, apartments, office space, etc.) in various geographic areas.

SUSTAINABLE GROWTH

Look for annual

increases in a REIT's cash flow, listed in the prospectus as adjusted funds from operations.

LOW LEVELS OF DEBT

Institutional investors recommend that debt be no more than 35% of total capitalization. The lower the level of variable-rate debt, the better.

DATA BW



who have been in business less than a decade. Michael Evans, national director of E&Y Kenneth Leventhal Group, real estate consultants in San Francisco, suggests targeting those that have weathered several real estate cycles, including the REIT debacle of the early 1970s.

Next, focus on high levels of institutional and insider

ownership, says Andrew Davis, portfolio manager of Davis Real Estate Fund, in Santa Fe, N.M. If management is selling, why should you be buying? The proxy will tell you how much of the common stock is owned by REIT insiders. A minimum of 10% of outstanding shares is recommended. Inside ownership averages 18% for the REITs tracked by New York-based Cohen & Steers Capital Management.

Another sign of a high-quality REIT may be found within the proxy: executive compensation. If the pay of the firm's top brass is tied to appreciation in the stock price, it is likely that management and shareholders are on the same team.

WIDE RANGE. It's also important to make sure that the individual REITs are diversified by property type and

whose REITs typically more than 30 properties ranging from shopping to office buildings. You call major real estate firms such as Cushman & Wakefield for national or regional reports on the office, industrial, retail, and apartment markets.

REAL ESTATE INVESTING

Only are you re to focus on financial performance. Don't be lured by high yields alone. Too many REITs with the heaviest dividends are also the ones that carry the most risk. For example, the average factory outlet REIT pays a generous 8% dividend. But because regional markets can only support a limited number of outlets, future earnings growth may be modest. Convert many low-yielding REITs shouldn't be overlooked. Office REITs, with modest yields of around 5.5% on average, now are the most experienced sector of the market, so their cash flow is expected to grow some 30% in 1997. Since REITs must pay 95% of their income in dividends to shareholders, investors in the office sector can expect sizable dividend increases in 1998.

Then, check the annual report to determine the amount and type—variable and rate—of debt that the REIT has on its balance sheet. Institutional investors suggest debt levels no higher than 35% of total capitalization. And remember, REITs with lots of variable-rate debt will be hurt if rates keep rising.

Lastly, you'll need to get a sense of whether the REIT is reasonably priced. Ask your broker about adjusted funds from operations, which is how analysts measure cash flow. Current cash flow multiples range from 8 to 15, depending on the properties.

Buying wisely in this market requires extensive analysis. So if your broker can't explain these basic fundamentals, you shouldn't be buying at all. *Evan Simon*



MODEM, A MOUSE, MORTGAGE

a Hugh McIsaac
ed to refinance
house in Manzeni-
re., he didn't go
bank or visit a mort-
roker. He went online.

s very
t, very
nient,
ussle-free," says the
r of family-court ser-
a Multnomah County.
nitely do it again."

would many others.
c is one of a growing
r of folks finding that
eakest and easiest way
a mortgage is over the
t. Because of its rates,
e chose Inland Mort-
a nationwide lender
n Indianapolis. Traffic
Inland site is indica-
how quickly Internet
growing among mort-
ounters: It rocketed
005 hits in October to
in January. Online ap-
ns jumped from 3.63%
d's consumer loans to
in the same period.
ple who are time-
" are using the Net,
es Calvin Watts, vice-

president and manager of
Inland's Internet marketing
division. Many users, says
Watts, are borrowers in rural
areas who want to avoid
traveling long distances to
branch offices in metro-
politan areas. Another lure

is anonymity. People with
"tarnished"

credit histories, as banks de-
scribe them, don't have to
face a skeptical loan officer.
Even some folks with pris-
tine records feel more com-
fortable with impersonal
vending machine-like devices

than with face-to-face en-
counters. Finally, lots of bor-
rowers like the potential bar-
gains: Online loans can also
cut mortgage costs. Lender
American Finance & Invest-
ment of Fairfax, Va., claims it
can save you \$1,500 in fees
on a \$135,000 loan, mainly be-
cause it doesn't have much
overhead.

Despite all these conven-
iences, getting a loan is not
exactly like getting cash
from an ATM. You'll have to
wait the same time period
before finding out if your
loan has been approved. And
in most cases, you'll have to
pay the same interest rate
and many of the same fees
whether you're in a bank or
cyberspace.

One downside of cyber-
space, though, is that you
don't have a real person to
talk you through your finan-
cial needs. Fortunately, there
are well over 100 mortgage-
related Web sites online. The
best ones, such as Country-
wide's Home Loan Wizard
and Homebuyer's Fair's In-
telligent Mortgage Agent,
provide interactive financial
calculators that let you ex-
periment with various finan-
cial scenarios. Much like
working a spreadsheet, you
can figure the impact of a 15-
year or 30-year loan at a va-
riety of interest rates while
taking into account factors
such as bank fees. You can
also determine if you should
rent or buy, just how much
home you can really afford,
and how tax breaks play out.

Other Web sites are for
your edification only, offer-
ing basic tutorials, glossaries,
and links to more regional
sites. One strong site, R-Net:
Real Estate and the Net
(www.clark.net/pub/rothman/re.htm#calculators), will give
you the big picture on buying
and selling homes as well as
provide terrific links to other
sites. The Mortgage Mart
(www.mortgagemart.com) con-
centrates more specifically on
financing issues. But many
sites are nothing more than
uninformative billboards for
individual brokers.

FOLKSY. National lenders are
fewer in number but tend to
boast better graphics and are
the most interactive. Surpris-
ingly, some are downright
folksy in the way they com-
municate information. Nobody
keeps it simpler than Consol-
idated Mortgage & Financial
Services Corp.—they call
their site Mr. Cash (www.mrcash.com). And Waterfield
Mortgage lets you click on a
picture of a loan officer for a
full-screen blow-up.

The worst sites are those
that want information about
you before they tell you
something about themselves.
Like real life, the Internet
has its share of shady opera-
tors, so it's best to deal with
recognizable institutions.
Which brings up the issue of
security. Among the sites
sampled, Countrywide was
the only one that let you
choose between an encrypted
or unencrypted transmission.
Companies such as Inland
say they will incorporate en-
cryption software on their
servers in the future, but
just how secure they are
from hackers may be a mat-
ter of faith.

In the end, you may be
better off following the lead
of our online pioneer from
Oregon, Hugh McIsaac. To
send truly confidential infor-
mation to Inland's loan offi-
cer, McIsaac used a fax
machine. Perhaps he remem-
bered the old adage that pio-
neers can wind up with ar-
rows in their back—even in
cyberspace. *Frank Vizard*

LANDING A MORTGAGE ON THE WEB

SITE/WEB ADDRESS

COUNTRYWIDE

www.countrywide.com

HOMEBUYER'S FAIR

www.homefair.com

INLAND MORTGAGE

www.inlandmortgage.com

WATERFIELD MORTGAGE

www.netgrafx.com/waterfield

COMMENTS

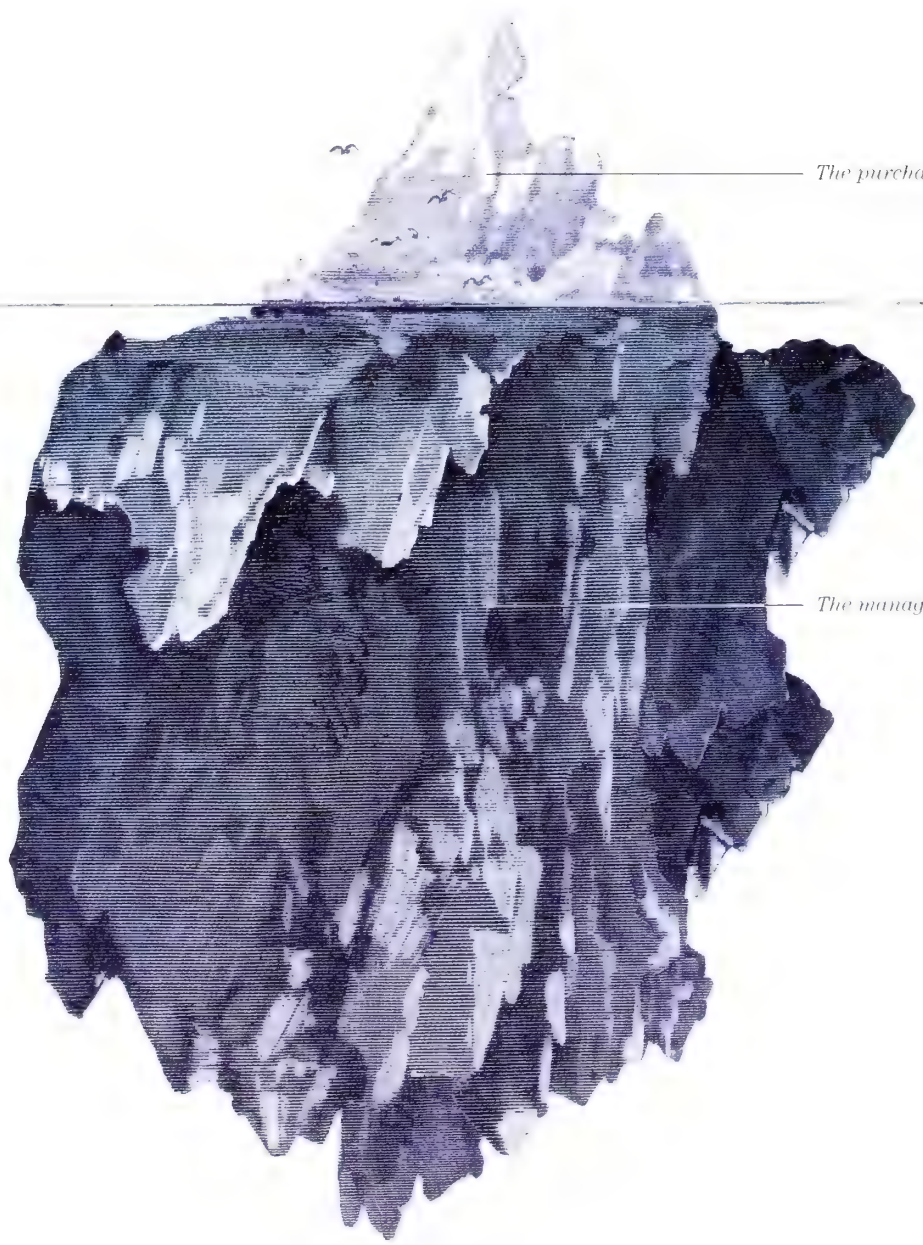
Lots of easy-to-understand information
delivered in a neighborly fashion

Besides mortgages, provides advice on
renting versus buying, how much prop-
erty you can afford, and other basics

Good data, but stilted language makes
you feel like you're dealing with a bank

Great graphical interface that makes
site navigation simple

DATA BUSINESS WEEK



— The purchase price

— The management costs



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the lesson of the Titanic.** High PC management



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for Business FROM \$992***

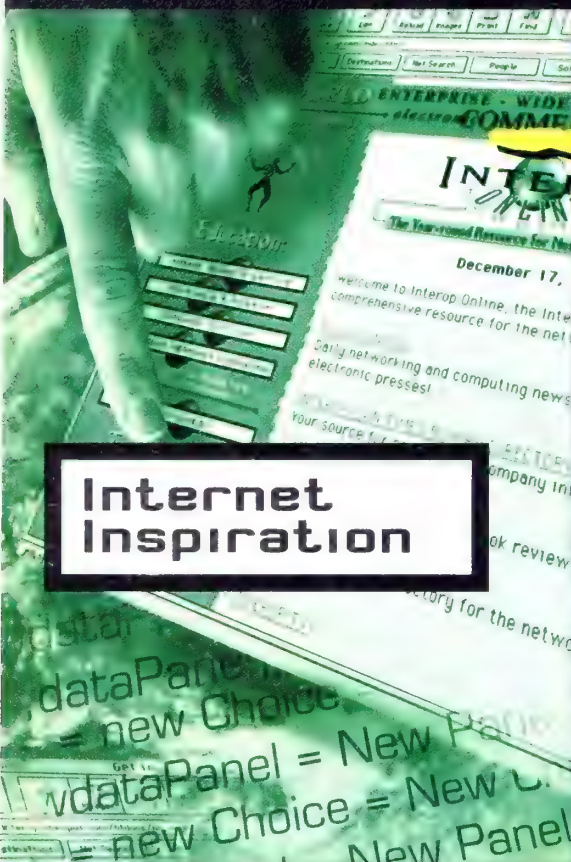
costs aren't just bad in themselves; they
also translate into lost productivity. Worse,
they suggest a PC environment barely
under control. But at HP, we don't just

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manage. We make PCs that help you manage. Between
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and OpenView, we offer a host of non-proprietary, DMI-
standards-based management solutions. You can upgrade
remotely, monitor every PC in your network, troubleshoot
problems and, in general, minimize costs. The iceberg
will still be out there, of course. But it won't be one
you'll founder on. www.hp.com/go/vectracommercial

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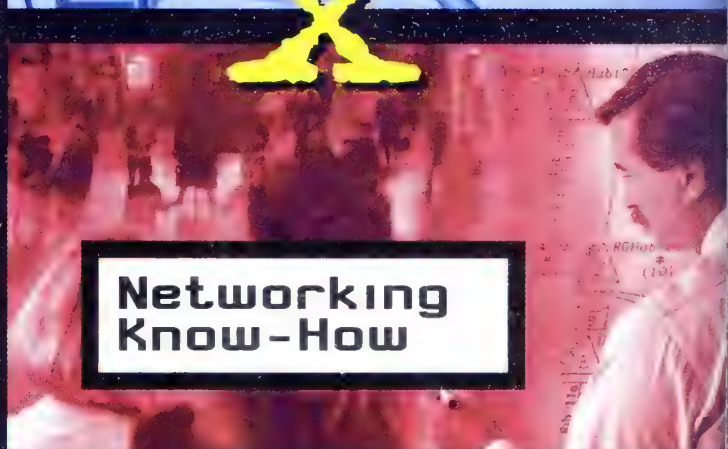
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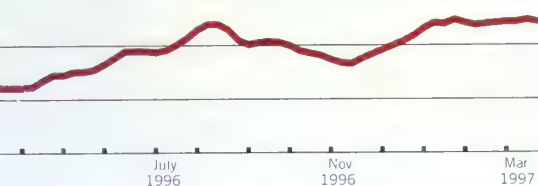
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PRODUCTION INDEX

Change from last week: +0.2%
Change from last year: +5.2%

PRODUCTION INDEX

Mar. 22=122.2
1992=100



The index is a 4-week moving average

The production index has been revised back to January, 1992, to reflect the work revision to the Federal Reserve's index of industrial production, component weights, and new seasonal factors. Historical data are from Business Week or at Business Week Online at www.businessweek.com or on America Online at keyword: BW. Look for production index on the current issue's Table of Contents.

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PRICING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
PRICES (3/28) S&P 500	757.12	784.10	16.6
GOVERNMENT BOND YIELD, Aaa (3/28)	7.63%	7.61%	3.2
RAW MATERIALS PRICES (3/28)	106.2	107.6	-3.3
COMPANY FAILURES (3/21)	NA	NA	NA
STATE LOANS (3/19) billions	NA	NA	NA
SUPPLY, M2 (3/17) billions	\$3,876.9	\$3,875.3r	4.3
CLAIMS, UNEMPLOYMENT (3/22) thous	310	314r	-27.2

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1990=100), Dun & Street (failures of large companies), Federal Reserve, Labor Dept

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
MUTUAL FUNDS (4/1)	6.18%	5.57%	5.29%
GOVERNMENT PAPER (4/2) 3-month	5.71	5.70	5.36
GOVERNMENT DEPOSIT (4/2) 3-month	5.70	5.66	5.35
MORTGAGE (3/28) 30-year	8.21	8.09	8.00
FIXED RATE MORTGAGE (3/28) one-year	6.02	5.85	5.77
LIBOR (3/28)	8.50	8.25-8.50	8.25

Sources: Federal Reserve, HSH Associates, Bloomberg Financial Markets

Data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

UNEMPLOYMENT CREDIT

Friday, Apr. 7, 3 p.m. EDT ▶ Consumers added \$7 billion in credit in February, according to the median forecast of analysts surveyed by MMS International, The McGraw-Hill Companies. After slowing in late 1996, credit use bounced back. In January, credit was added by \$8.4 billion. Revolving debt, which includes credit cards, surged \$1 billion, rising at its fastest pace in more than a year. The advance reflects the increase in consumer spending.

UNEMPLOYMENT CLAIMS

Friday, Apr. 10, 8:30 a.m. EDT ▶ New claims for state unemployment benefits

probably stood at 320,000 for the week ended Apr. 5. Jobless claims have dropped sharply since the end of 1996, evidence of the greater availability of jobs. In the middle of March, the four-week moving average stood at 311,000, the lowest reading in this expansion.

PRODUCER PRICE INDEX

Friday, Apr. 11, 8:30 a.m. EDT ▶ The MMS median forecast expects that producer prices of finished goods were unchanged in March. If so, it is just another sign that wholesale inflation is nonexistent: The PPI dropped 0.3% in January and 0.4% in February. Falling food and energy prices contributed to the declines. Excluding food

and energy, core prices probably edged up just 0.1% in March, after slipping by 0.1% in February.

RETAIL SALES

Friday, Apr. 11, 8:30 a.m. EDT ▶ Retail sales likely rose a healthy 0.5% in March. That would follow sales jumps of 1.5% in January and 0.8% in February. Given the retailing data, real consumer spending probably grew at an annual rate of close to 5% in the first quarter. The March gain is suggested by increases in the BTM/Schroders chain-store sales index and the weekly survey done by UIR Redbook Research. In addition, an early Easter probably pulled apparel sales forward from April into March.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (3/29) thous. of net tons	2,149	2,120#	2.3
AUTOS (3/29) units	113,024	127,334r#	-7.8
TRUCKS (3/29) units	99,029	131,172r#	-23.2
ELECTRIC POWER (3/29) millions of kilowatt-hrs.	56,950	59,339#	-1.2
CRUDE-OIL REFINING (3/29) thous. of bbl./day	14,290	14,079#	1.8
COAL (3/22) thous. of net tons	21,344#	20,800	-0.6
LUMBER (3/22) millions of ft.	509.9#	509.0	10.6
RAIL FREIGHT (3/22) billions of ton-miles	27.9#	27.4	4.1

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPPI, SFPPI, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (4/2) \$/troy oz.	351.050	346.050	-11.0
STEEL SCRAP (3/28) #1 heavy, \$/ton	136.50	136.50	-1.8
COPPER (3/28) ¢/lb.	119.8	117.7	-0.1
ALUMINUM (3/28) ¢/lb.	79.3	80.0	1.8
COTTON (3/29) strict low middling 1-1/16 in., ¢/lb.	69.67	70.63	-15.2
OIL (4/1) \$/bbl.	19.95	20.77	-11.1
CRB FOODSTUFFS (4/1) 1967=100	245.32	245.28	4.0
CRB RAW INDUSTRIALS (4/1) 1967=100	337.92	339.19	2.2

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (4/2)	122.72	124.23	106.98
GERMAN MARK (4/2)	1.67	1.69	1.48
BRITISH POUND (4/2)	1.64	1.63	1.53
FRENCH FRANC (4/2)	5.63	5.70	5.04
ITALIAN LIRA (4/2)	1659.0	1685.5	1561.7
CANADIAN DOLLAR (4/2)	1.39	1.37	1.36
MEXICAN PESO (4/2)	7.939	7.893	7.525
TRADE-WEIGHTED DOLLAR INDEX (4/2)	104.6	105.1	96.68

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar vs. U.S. market

This Week, Online

Business Week presents frequent live conferences and chats on America Online—your opportunity to ask questions about features from the magazine.

Sunday

Time to sell stocks? Bill Wolman, BW chief economist (and CNBC commentator) takes your questions on the market and whether the bull has run its course. **Apr. 6 9 p.m. EDT in the Globe**

Monday

Another in the series of weekly BW Enterprise chats—like the BW Enterprise edition, full of helpful information for small business and entrepreneurs. **Apr. 7**

8 p.m. EDT in the BW Enterprise Chat Room

Thursday

American MBA students tell what it's like to participate in exchange programs in Europe. **Apr. 10 8 p.m. EDT in the BW Online Chat Room**

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.



Index to Companies

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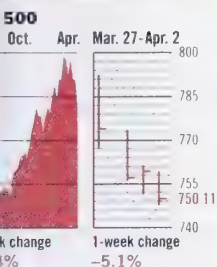
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Business Week (ISSN 0007-7135) published weekly, except for one issue in January, by The McGraw-Hill Companies, Inc. Executive, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$49.95/year; Canada \$69.95/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. **Postmaster:** Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J.

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Investment Figures of the Week

KS



ENTARY

really took it on the chin week, suffering from the whammy of inflation and less-than-robust earnings. The Dow industrials tumbled 63 points, or 5.3%, while Standard & Poor's 500-stock index sank 5.1%. For the year, those two large-cap indexes are ahead just a bit more, after sporting almost double-digit gains less than a year ago. The performance of the cash-laden NASDAQ index has been far worse—down 7% for the year. Gold stocks were helped by the Bre-X scandal, but were gold mutual funds.

U.S. MARKETS

	Latest	% change Week	% change Year
Dow Jones Industrials	6517.0	-5.3	14.9
NASDAQ Combined Composite	1201.0	-5.4	8.1
S&P MidCap 400	249.1	-4.7	7.3
S&P SmallCap 600	135.2	-4.2	5.1
S&P SuperComposite 1500	160.6	-5.0	13.3

SECTORS

	Latest	% change Week	% change Year
Bloomberg Information Age	223.9	-5.5	12.1
S&P Financials	84.3	-7.2	23.5
S&P Utilities	188.6	-2.5	-3.0
PSE Technology	238.1	-5.3	17.9

FOREIGN MARKETS

	Latest	% change Week	% change Year
London (FT-SE 100)	4236.6	-1.5	13.6
Frankfurt (DAX)	3301.9	-3.4	32.0
Tokyo (NIKKEI 225)	18,037.3	-2.4	-16.5
Hong Kong (Hang Seng)	12,136.3	-5.0	8.9
Toronto (TSE 300)	5849.1	-4.5	16.4
Mexico City (IPC)	3716.2	-3.3	20.8

FUNDAMENTALS

	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.94%	1.86%	2.13%
S&P 500 P/E Ratio (Last 12 mos.)	19.9	20.7	19.3
S&P 500 P/E Ratio (Next 12 mos.)*	15.9	16.6	NA
First Call Earnings Surprise*	2.41%	NA	NA

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 200-day average	720.0	717.9	Positive
Stocks above 200-day average	56.0%	64.0%	Neutral
Options: Put/call ratio	0.69	0.69	Neutral
Insiders: Vickers Sell/buy ratio	2.04	1.94	Neutral

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS

	Last month%	Last 12 months%
Oil & Gas Drilling	11.4	Semiconductors 78.1
Trucking	9.3	Oil & Gas Drilling 56.1
Restaurants	9.3	Shoes 51.7
Newspaper Publishing	4.8	Savings & Loans 44.4
Oil-Well Equip. & Svcs.	3.4	Household Products 33.7

WORST-PERFORMING GROUPS

	Last month%	Last 12 months%
Hospital Management	-21.2	Gold Mining -26.7
Photography/Imaging	-17.7	Machine Tools -26.5
Tobacco	-14.5	Engineering & Constr. -23.4
Gold Mining	-14.2	Broadcasting -20.5
Engineering & Constr.	-14.0	Steel -14.7

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness

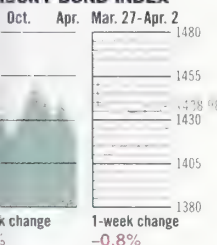
	Price	1-month change
IBM	136 3/4	-8 3/8
Texas Instruments	75 1/4	-4 3/4
General Electric	98 5/8	-4 3/4
Citicorp	112 1/8	-5 1/2
Compaq Computer	74 3/4	-5 3/8
3M	85 5/8	-6 7/8

Decline ahead? Stocks with most significant selling on price strength

	Price	1-month change
Royal Dutch Petroleum	174 3/8	3 3/4
ADC Telecommunications	28 1/8	3/8
PacificCare Health Systems	83 3/4	11 1/16
ASM Lithography Holding	73	6 3/8
Monsanto	37 3/4	1/8
Zitel	29 3/4	3/4

REST RATES

ASURY BOND INDEX



Bloomberg Financial Markets

KEY RATES

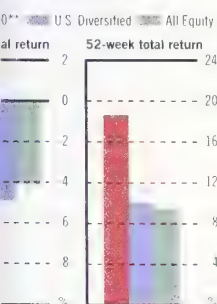
	Latest week	Week ago	Year ago
MONEY MARKET FUNDS	5.01	4.96	4.86
90-DAY TREASURY BILLS	5.28	5.44	5.20
6-MONTH BANK CDS	5.13	5.07	4.86
1-YEAR TREASURY BILLS	5.95	5.91	5.41
10-YEAR TREASURY NOTES	6.85	6.75	6.31
30-YEAR TREASURY BONDS	7.07	6.95	6.66
LONG-TERM AA INDUSTRIALS	7.57	7.45	7.22
LONG-TERM BBB INDUSTRIALS	7.94	7.79	7.62
LONG-TERM AA TELEPHONES	7.76	7.65	7.48

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	10-yr. bond Last week	30-yr. bond Latest week	30-yr. bond Last week
GENERAL OBLIGATIONS	5.07%	4.99%	5.63%	5.59%
PERCENT OF TREASURIES	73.94	73.68	79.63	80.13
TAXABLE EQUIVALENT	7.35	7.23	8.16	8.10
INSURED REVENUE BONDS	5.24	5.14	5.89	5.86
PERCENT OF TREASURIES	76.42	75.89	83.31	84.00
TAXABLE EQUIVALENT	7.59	7.45	8.54	8.49

MUTUAL FUNDS



Morningstar, Inc.

EQUITY FUNDS

Leaders	4-week total return %	Laggards	4-week total return %
Prudent Bear	6.7	IDS Precious Metals B	-17.6
Fidelity Sel. Energy Serv.	4.8	Morgan Stanley Inst. Gold A	-16.8
Rydex Urss	4.7	Invesco Strategic Gold	-16.0
Caldwell & Orkin Mkt. Opp.	4.5	Midas	-15.9
Tocqueville Intl. Value	4.2	First Amer. Technology B	-15.6
Leaders	52-week total return %	Laggards	52-week total return %
Vontobel Eastern Europ. Eq.	56.2	Steadman Technology Grth.	-42.0
Morgan Stan. Inst. Lat. Am. A	47.4	United Svcs. Gold Shares	-41.1
Morgan Stanley Latin Amer. A	46.1	DFA Japanese Small Co.	-39.2
Delaware Pooled Real Estate	43.2	Fidelity Japan Small Co.	-35.2
State St. Res. Glob. Res. A	41.8	Matthews Korea	-34.1

EQUITY FUND CATEGORIES

Leaders	4-week total return %	Laggards	4-week total return %
Europe	-0.4	Precious Metals	-11.3
Japan	-0.8	Technology	-9.0
Latin America	-1.4	Small-cap Growth	-8.4
Foreign	-1.4	Health	-7.1
Real Estate	-1.7	Mid-cap Growth	-7.1
Leaders	52-week total return %	Laggards	52-week total return %
Real Estate	31.3	Precious Metals	-20.1
Latin America	29.1	Japan	-19.0
Financial	24.5	Diversified Pacific/Asia	-4.9
Europe	18.5	Small-cap Growth	-4.6
Large-cap Value	14.9	Communications	-1.2

as of market close Wednesday, Apr. 2, 1997, unless otherwise indicated. Industry groups P 500 companies only. Fundamentals, technical indicators, Bloomberg money flow analy-

sis, and mutual fund returns are as of Apr. 1. For a more detailed explanation, write to us or E-mail figures@businessweek.com NA=Not available **Vanguard Index 500 Fund

A POLITICAL FOOTBALL CALLED TRADE

Can this Congress be trusted even with trade policy? The poisonous partisanship and Presidential political jockeying that have so far marked the 105th are swiftly making a mockery of any "national" trade policy that might focus on the country's best overall interests. Along with balancing the budget, entitlement reform, campaign finance reform, and every other important piece of the nation's business, trade policy is being held hostage to the egotistical whims and power plays of legislators. It is a sickening display.

On the Democratic side, there is Richard A. Gephardt (D-Mo.), running hard for President in 2000 by pandering to free-trade bashers. Gephardt is risking a new cold war by opposing the renewal of China's most-favored-nation status, which comes to a vote in July. He also favors a congressional oversight (read veto) over China's entry into the World Trade Organization. Long a foe of NAFTA, Gephardt opposes giving the President "fast-track" authority to expand it to include Chile and other South American countries. President Clinton, a tried-and-true free-trader in his first term, is edging closer to Gephardt's populist protectionism, seeking sanctuary from the Republican pounding on Donorgate. Ditto for Vice-President Al Gore.

From the Republicans, the shift toward both protectionism and a cold war with China is palpable. A wholesale retreat on

MFN is under way, with the Religious Right joining trade protectionists and geopolitical alarmists in opposing renewal of entry of China into the WTO. Allegations, yet to be proven, that China attempted to influence the 1996 elections, played into the GOP's strategy of smashing the Clinton Administration, the rock of Donorgate (while congressional Republican conduct goes unexamined). As for extending NAFTA via fast track, it is the last thing many conservatives want.

Do any of these politicians actually understand the crucial role global trade and investment have played in the economic expansion of the past six years? Do they comprehend that exports have generated growth and better-paying jobs, especially in high technology, while imports have kept inflation credibly low? Do they realize that impatient Chile has already joined with Brazil and Argentina in a new free-trade grouping, Mercosur, that is rivaling NAFTA? And do they realize the historic implications of injecting partisan pettiness into foreign policy, threatening relations with China? If they don't seem to matter to them. The trade deficit, totaling \$100 billion over the past 12 months, is the widest on record.

In Washington, life revolves around the never-ending campaign, the nonstop raising of campaign funds, the ceaseless politics of positioning and place. This is not the way to lead a nation into the 21st century. It's not the way to lead, period.

SMART COMPANIES ARE EYEING JAPAN

Ever since Japan's economic bubble burst in 1990, it has become almost fashionable for Western companies to bypass the country. Mesmerized by faster growth and easier access, they have shifted their focus to China, Thailand, and other Asian countries. This shortsighted view may now be changing, if ever so slightly. The past year has shown a spurt in foreign direct investment into Japan. Could it be that some smart U.S. companies, smelling competitive advantage, are bucking a trend to their own benefit? We think so.

Without much fanfare, a window of investment opportunity is making Japan one of the most attractive markets in Asia. With depressed asset prices, rents lower than Hong Kong's, a yen cheaper by half compared with two years ago, and a rebounding economy, Japan has quietly begun to look good again. Japanese consumers (with per capita purchasing power 80 times that of their Chinese counterparts) are hooked on discount products from overseas. Downsizing companies are shedding both high-quality employees who are willing to work for foreign companies and high-quality subsidiaries now available for purchase by American, European, or other Asian companies. Small software firms are selling out to those in Silicon Valley, while others are doing joint ventures again (page 56).

For the big multinationals there remain classic arguments

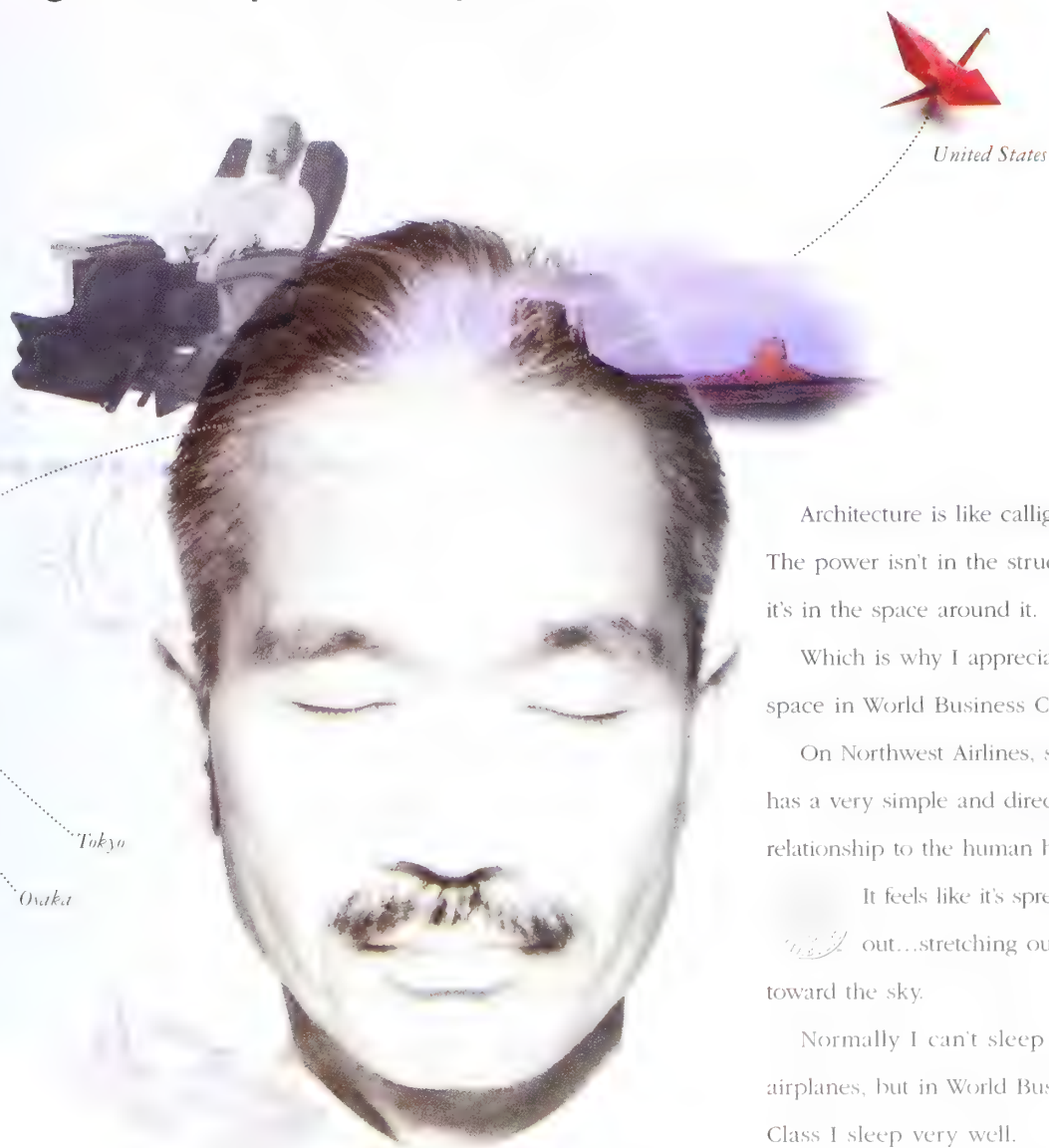
to invest in Japan. By competing seriously there, they can strong Japanese rivals a sanctuary market to amass product buy market share in the global marketplace. Being in Japan also allows a company to scope out competitors' plans and products. And winning notoriously finicky Japanese consumers with superior design, quality, and service can be a significant key to success elsewhere.

Despite all the talk of Greater China, Japan today is the world's second-largest economy and will remain so for decades. The Japanese economy is also one where speed and patience can often lead to serious profits. With much the investment flowing into China turning out to be profitable to date, this is a major attraction for investors. Difficult as Japan may be to crack, the payout can be considerable if a foreign company gains its niche.

Without question, Japan has a long way to go before it is as open to foreign investment as Europe and the U.S. must further deregulate the economy, ease tax and labor policies, and learn to treat foreign companies simply as competitors, not strangers outside the family. Rupert Murdoch's recent drubbing at the hands of the clannish Japanese broadcast community is a case in point. Yet there is no doubt that Japan's attractiveness vis-à-vis the rest of Asia has been proved. Bravo to those companies who discover it first.

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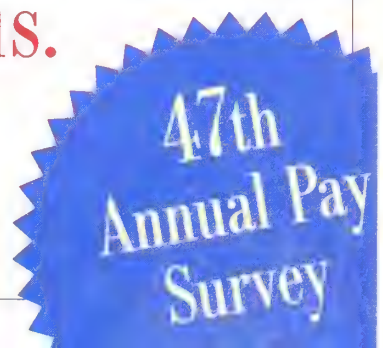
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Executive Pay T'S OUT OF CONTROL

By relying heavily on stock options, many companies make exorbitant payouts for so-so performances, dilute real shareholder return, and glorify CEOs at the expense of other employees. The bottom line: **Don't confuse a bull market with managerial genius.**

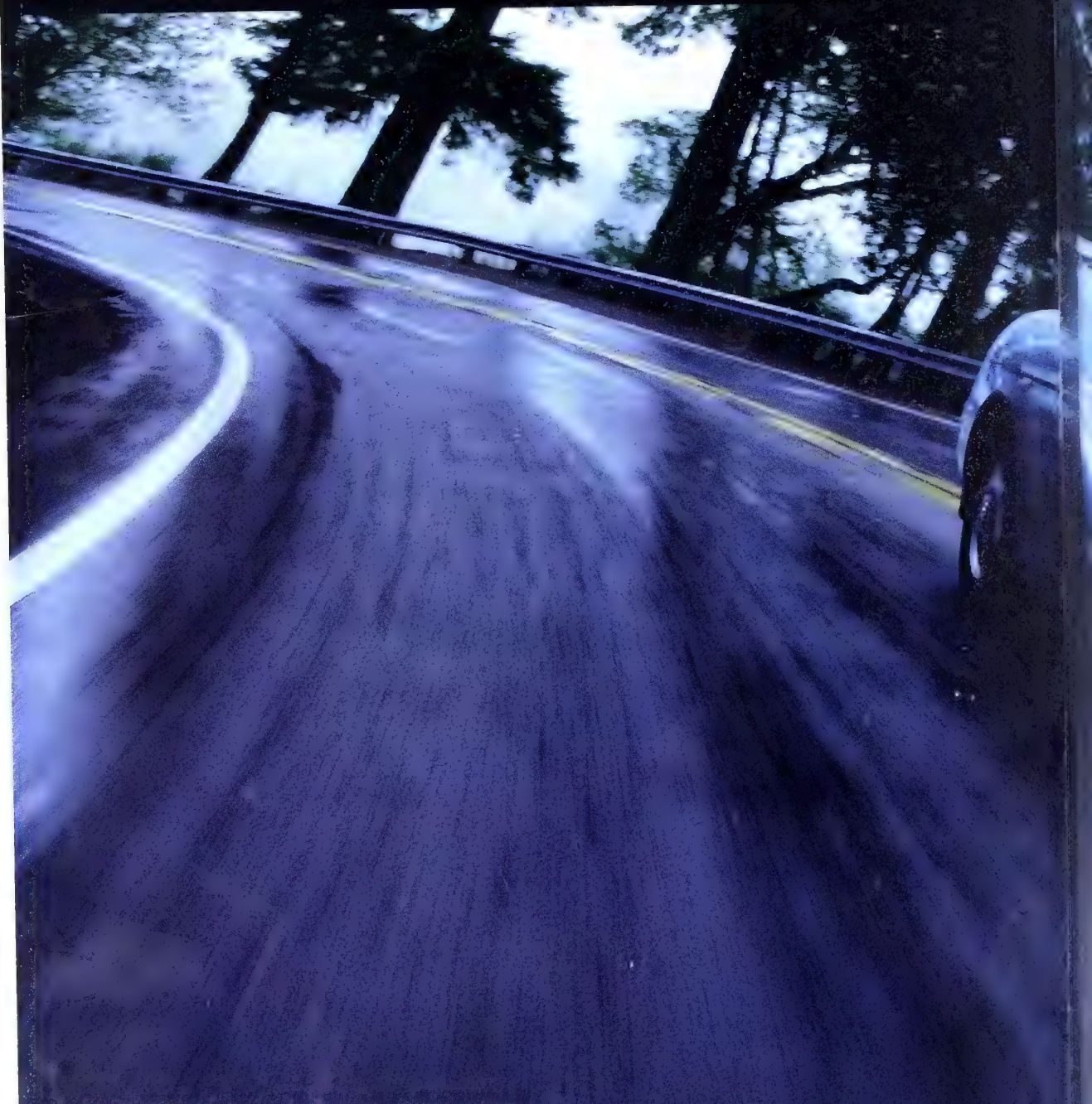
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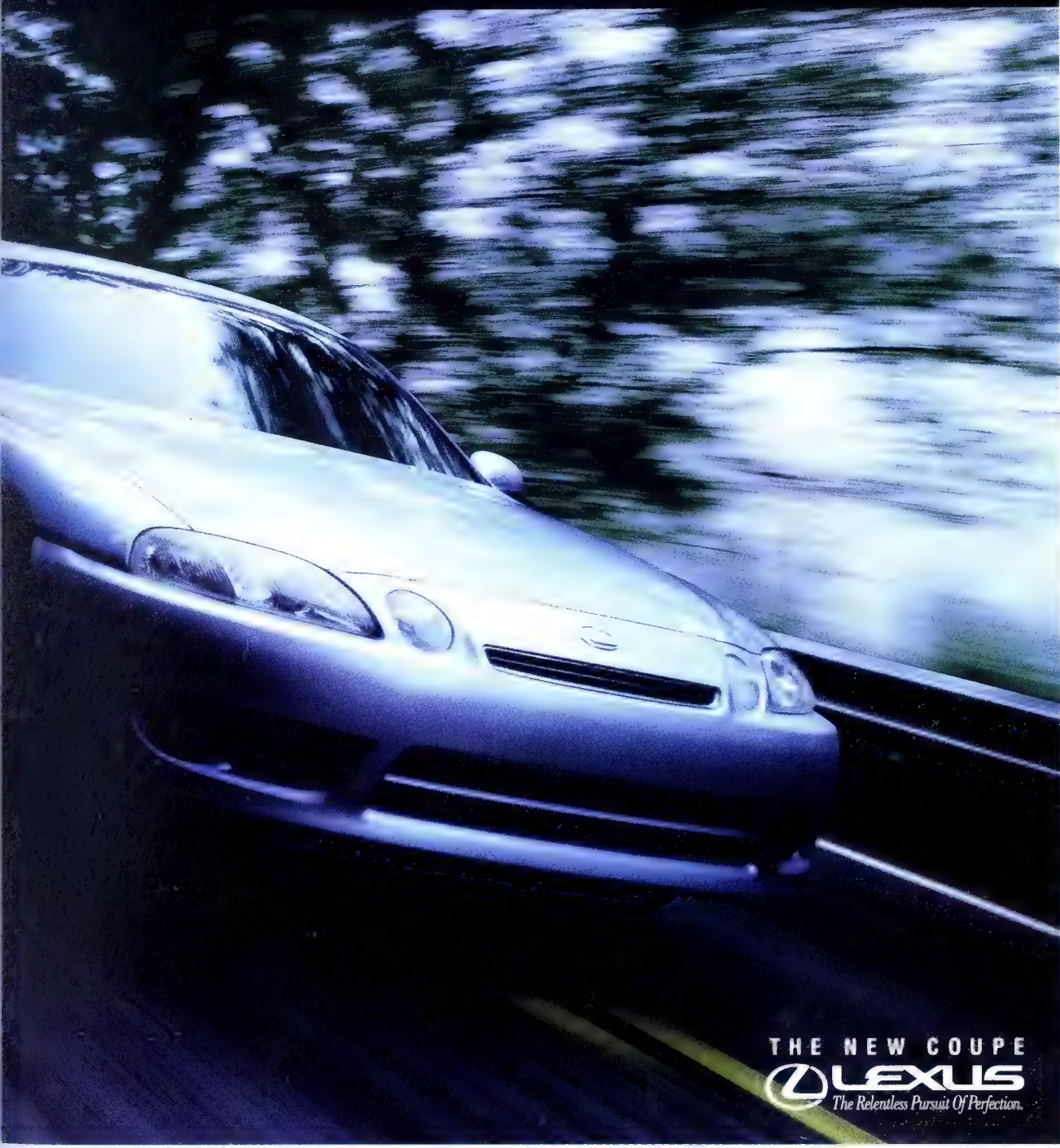


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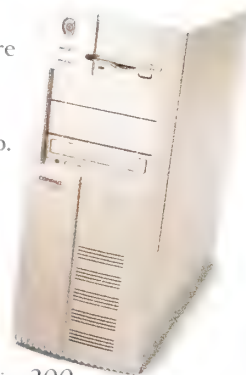
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COVER STORY

EXECUTIVE PAY

It was a stellar year for the S&P 500. The index rose 28%, and corporate profits an average of 11%. The biggest winners? CEOs. They got a 54% raise

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Cover Story

58 EXECUTIVE PAY

Pay for performance is a great idea. But Corporate America may be relying too heavily on stock options to reward execs. Stars and second-stringers alike won big in 1996 as the bull market lifted all CEOs. And now shareholders are finding their own gains diluted. Does Wall Street's success justify huge CEO raises or is the system out of control?

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Up Front

EDITED BY LARRY LIGHT

UNREAL ESTATE

XANADU MAY GET XANADUMPED

WHAT DO YOU DO WHEN YOUR Xanadu just won't do anymore? If you're Henry Kravis, you call Sotheby's and try to unload the dream house you had in a previous life with a previous wife. In 1992, when he was married to designer Carolyne Roehm, the financier built his eight-bedroom Palladian-style mansion on the Dominican Republic's southern coast. Called Westerly, the estate also has a six-car garage, two seaside dining gazebos, a pool, and tennis courts.

Trouble is, Kravis doesn't much use this palace. Friends say he goes there occasionally in the winter to play golf. But he is tired of the tropical climate and the place's Gatsbyesque grandeur. One friend calls it "gaudy, totally unlike Henry." Another says Kravis and his new wife, economist Marie Josee Drouin, prefer the rustic charms of their 4,500-acre Colorado ranch.

Westerly may not bring a good return for Kravis, who declines to comment. Friends say that he paid about \$20



SOthebys
International Realty
KRAVIS and Westerly

million to build it. It's on the market for \$22 million. The northern coast is a hotter spot for the rich set, and Westerly's size makes the place tough to move. Luxury homes in his neighborhood, Casa de Campo, go for a mere \$3 million or so. Christie's international property sales chief, Peter Kempf, predicts Westerly will take two or three years to sell. □

I-WAY PATROL

A NEW NABOB OF NAMES ON THE NET

DOT WHAT? LOOK FOR A SPATE of new suffixes for Web domain names. Right now, hamburger lovers can access www.mcdonalds.com. The most prominent of the 1.2

TALK SHOW "He's got a little charm offensive under way with the Far Right. We understand that."

—Clinton spokesman Mike McCurry, on House Speaker Newt Gingrich, who hurt himself by suggesting a tax-cut delay

NEW WORLD ORDER

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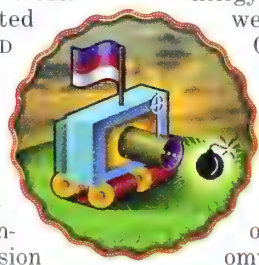
RUSSIA'S MILITARY LOOKS LIKE an empty shell, unable even to defeat a ragtag militia in Chechnya. Strapped for cash, Russia is having trouble paying and feeding its 1.7 million troops. However, behind the scenes, Russia's military leaders are shaping a strategy that one day could pose a threat to the West: focusing its limited resources on R&D for "information warfare."

Western analysts say that Russia is anteing up for new generations of smart sensors and precision weapons. And it is working on viruses and other high-tech wreckers that can attack an adversary's civilian computers running everything from the financial sys-

tem to telephones to grids. Even as it cuts off on conventional forces, Russian Parliament recently doubled defense R&D appropriations, to \$2 billion.

Moscow's stepped-up program is a backhanded compliment to America's state-of-the-art military technology that performed well in the Persian Gulf war against Iraq's Scud-made weapons.

the amount of flowing international resources turn into a once Russia's economy bounces back, the U.S. may have to ally pay attention to it for a mer cold war foe. For one thing, the White House says it doesn't view Russia as an adversary. *Stan*



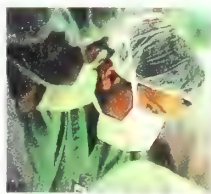
million existing names are ".com" for commercial, ".edu" for educational institutions, and ".gov" for government bodies. Later this year, the list will expand to include seven new names, including ".store" for retailers and ".nom" for individuals.

Significantly, these new names will be assigned by

someone other than Network Solutions Inc., up until now the sole U.S. gatekeeper for Web addresses. Disgruntled over how NSI parcels out names has led Digital Equipment, UUNET, the International Telecommunications Union, and other high-tech outfits to set up their own coalition to settle disputes, especially among trademarked brands. The members will individually O.K. new names.

NSI has let people register numerous well-known handles such as McDonald's, for companies to buy the right to the names. But NSI says it still has many supporters and that it, too, is working on adding more names for cyberspace. *Paul M*

THE LIST PUBLIC IMAGE



WHO DOES THE BEST JOB SERVING THE CONSUMER?

Health is a top concern among consumers when asked to rank who does a good job for them. While 83% of the respondents feel that way about doctors, the public takes a dim view of the large organizations overseeing the medical system: health insurance and managed-care outfits, which critics say sometimes block necessary care. No surprise that tobacco, under increasing attack as a deadly influence, gets the lowest marks.

TOP THREE

MEDICAL DOCTORS	83%
TELEPHONE COMPANIES	80
COMPUTER COMPANIES	80

BOTTOM THREE

HEALTH INSURERS	55%
MANAGED-CARE COMPANIES	51
TOBACCO COMPANIES	34

From a telephone poll of 1,005 adults

DATA: LOUIS HARRIS & ASSOCIATES INC.

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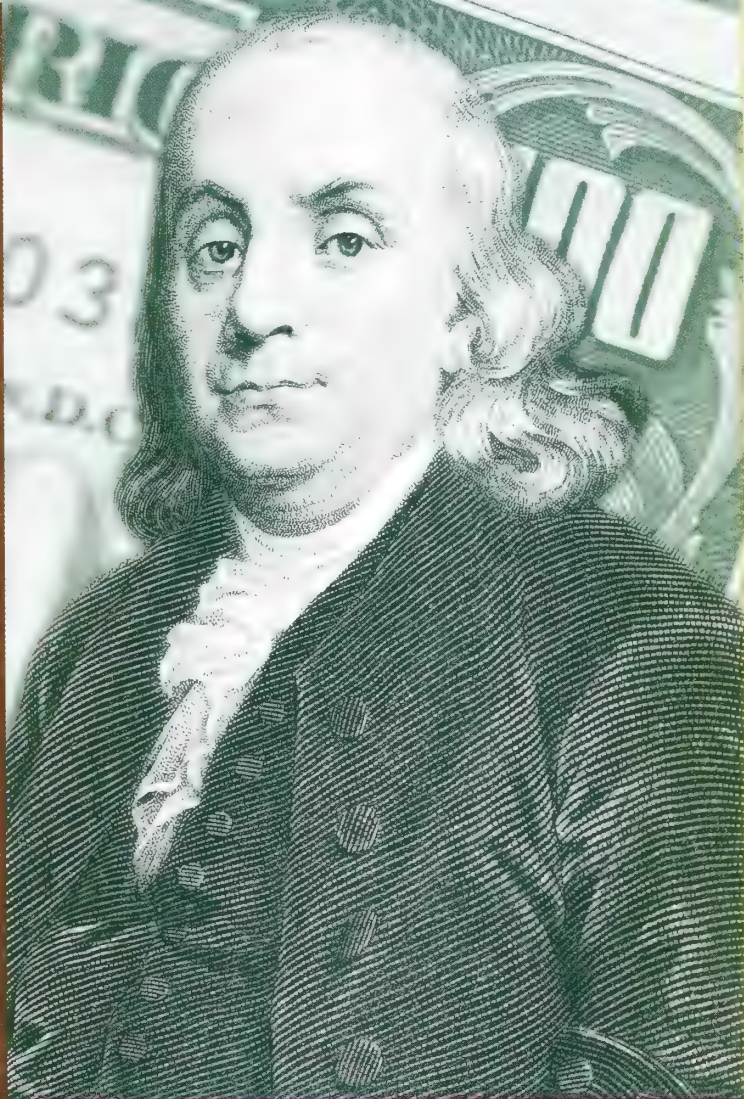
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Up Front

PRODUCT PEEK

THE NEW BATS OF SUMMER

SOFTBALL SEASON THIS YEAR will bring a slew of hyped "high-tech" bats. Makers each claim their metal products, ranging in price from \$109 to \$250, swing better and hit farther than ordinary sticks.

Consider the Fusion bat, a composite of aluminum and graphite from sporting-goods maker Dudley, a unit of Spalding. Lighter than conventional softball bats of the same size, this beer-league slugger's dream has a faster swing that sent 63% of the balls in a test trial over the fence 300 feet away, Dudley says. It helps that the test batter was a former Major Leaguer, Marvell Wynne of the Pittsburgh Pirates.

Then there's Easton Sports' new bat, the SZI-C Redline Carbon Core, made

from a rare material used in Soviet MiG fighter jets

FUSION: Does it hit farther?

and missiles. And Worth Inc. is pushing a new line of Cryogenic bats, which are first heated, then chilled to temperatures as low as -310F.

Are these sales pitches, all made by major batmakers, credible? Gary Wallick, western regional president of the U.S. Slo-Pitch Softball Assn., says claims of extra distance are as old as the game—and hard to prove. But the main factor, Wallick says, will always be "who's doing the swinging." *Mark Hyman*

BUSINESS SPEAK

A FUND BY ANY OTHER NAME...

LOTS OF INVESTORS ARE faithful to Fidelity. Some are in the forefront with Vanguard. Now, many other mutual-fund families want similarly memorable brand names. So they're creating new monikers. In 1996, 45

and National Bank of Detroit merged, executives figured their funds' names (Prairie and Woodward) were too unexciting and redubbed them Pegasus, after the mythological winged horse—to denote both strength and the ability to soar. The Twentieth Century and Benham families, keeping a vestige of the old names to avoid confusion, emerged as American Century.

After all, this century is ending. How do these new names stack up? Still too bland, says Ken Roberts, head of corporate-image consultant Lippincott & Margulies. Reason: Financial-services names in general seek to project stability, he says. Of course,

some funds don't even try to be catchy. State Street Global Advisors wanted a name closer to its own. That's why Seven Seas funds recently became SSgA. *Lisa Sanders*

MUTABLE MONIKERS

Seven Seas Funds	SSgA Funds
Prairie Funds	Pegasus Funds*
Woodward Funds	
Twentieth Century	American Century*
The Benham Group	

DATA: MERRILL PIERCE

*Merged funds

fund families changed names. This year, thus far, 10 have switched.

Mergers are giving many fund providers the chance to change. When First Chicago

DRAWN & QUARTERED



SECOND CHANCES

BEATING SWORDS INTO CRUISE SHIPS

IS CROATIA ABOUT TO BECOME a vacation hot spot? The war with the Serbs ended in 1995, so the small nation is trying to bring back the tourists who once provided 10% of its income. Renowned for its beaches and medieval cities, Croatia has repaired shell-damaged roads and buildings. The Rebuild Dubrovnik Fund, partly run by the American Society of Travel Agents, has raised money to replace the city's famous terracotta roofs.

Croatia has spent \$167 million to dress up and promote tourist facilities. Officials are in talks to enlist Czech-born Ivana Trump and her husband, wealthy Italian businessman Richard Mazzuchiel-

li, in the publicity campaign.

To date, tourism has bounced to 60% of the war level of 7 million visitors yearly. The recently formed Croatian Cruise Lines has cut out all 14 trips for 1997. Upscale Cunard cruise plans to return in 1998. Big U.S. tour agencies are



CROATIA: New roofs, new

fering Croatia packages. Americans aren't shying. Says Croatia tourism spokesman Marko Podkubov: "They forget very easily yesterday's story." *Ruth Co*

THE BIG PICTURE

MORE PEOPLE PLEDGE ALLEGIANCE

There's a boom in new citizens. One motivating factor: new federal rules barring welfare and other benefits to noncitizens. Plus, starting in 1988, green-card workers could qualify for citizenship after working in the U.S. for seven years.



MILLIONS OF PEOPLE APPROVED FOR U.S. CITIZENSHIP

'86 '93
DATA: IMMIGRATION & NATURALIZATION SERVICE

FOOTNOTES The share of bank lending that is consumer loans, in 1996: **45%**; in 1986: **33%**

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Readers Report

THE NEW BUSINESS CYCLE COMES ROUND AGAIN

Your article provides valuable information about the significant role that technology plays in the business cycle today ("The new business cycle," Cover Story, Mar. 31). But the analysis of the dangers of technology seems to be a bit lacking. To the extent that information technology increases corporations' productivity and competitiveness, the companies that choose not to invest during a downturn would be vulnerable to companies with strong capital positions that did choose to invest in information technology. Thus, even in down times, companies will be pressured to maintain their technological investment—or risk losing market share to competitors who do.

Lendell Porterfield
Alexandria, Va.

The article certainly was thought-provoking and could become reality. On the other hand, comparing information technology to the railroads is something of a stretch. For the railroads, the time to market and the heavy capital outlays were much different from the short cycle-response time of the present technology sector. Also, technology's richness comes more from the delivery of "soft" goods rather than hard goods.

Information technology leverages human capital by expanding creativity and facilitating the sharing of knowledge. Witness the explosion which no one even dreamed of four years ago! The global business environment has hardly been touched by the full impact of technology. Even in deteriorating economic times, business will continue to use technology to lift productivity and compete globally.

Dudley P. Cooke
President
Executive Insight Group
Bryn Mawr, Pa.

Your article states that the cyclical behavior of high technology may affect business investments. High technology

serves a variety of growth businesses—from computers, networks, communications, software, and electronics to automotive, industrial, medical, defense, and appliances. High technology has an impact on every segment of the gross national product—from consumers, business, and government to inventories and exports.

American companies dominate many markets internationally, including computers, software, networking, communications, and processors. Increasingly, these high-tech businesses are dependent on upgrades, maintenance, and service of mission-critical systems, not on new product sales. This diversity reduces cyclicity.



Diversity leads to reduced amplitude and frequency of cycles. The market rewards lower risk.

DOG EAT DOG
"Even in down times, companies will be pressured to maintain their technological investment—or risk losing market share to competitors who do"

Dash Chang
President & CEO
SuperSite.Net Inc.
Cupertino, Calif.

WHY PHONE COMPETITION IS STILL ON HOLD

Robert Kuttner doesn't understand who really is to blame for delaying competition in telecommunications ("Don't let the Baby Bells stall competition," Economic Viewpoint, Mar. 31). BellSouth Corp. and the other regional Bell companies pushed for the Telecommunications Act of 1996. We pushed for reform when the long-distance lobby was sending fake telegrams to Capitol Hill urging officials to vote against it. We believed that opening the telecom mar-

ketplace to competition would benefit customers. We want to get into long-distance business and compete with package products and services like other competitors. We believe it's worth opening our market to competition, losing some of our best customers in order to be able to compete against long-distance oligopoly.

Beyond pushing for legislation, we have worked to open our networks to develop and implement massive computer systems so that competitors can connect and use our networks to compete with us. But throughout the process we have faced the same tactics from AT&T, MCI Communications and Sprint that Kuttner accuses

old AT&T of using. Clearly, the long-distance companies are simply trying to delay competition. They have refused to negotiate in good spirit the legislation drafted for. BellSouth will continue to fight for competition and to press for open markets, including opening long-distance business to true competition.

Randy
Vice-President
BellSouth Corp.
Atlanta

There are serious gaps between the Telecommunications Act and actions taken by the Federal Communications Commission. To suggest that the phone industry should stand meek while a federal agency circumvents the act and puts in place a process that ghettoizes the world's best phone system—all so AT&T and MCI Communications can serve only selected customers—is preposterous. GTE Corp. will continue pushing for the Act to be implemented as Congress intended, not the way the FCC and the long-distance companies would like.

Geoffrey C. C...
Vice-President
GTE Corp.
Washington

DID ALABAMA PAY TOO MUCH FOR THE BENZ?

Let me see if I have this right according to your article "In Alabama the soul of a new Mercedes?" (The Corporation, Mar. 31), the state of Alabama "coughed up \$250 million" in value-added tax breaks for the Mercedes plant that employs 650 (or approximately \$380 per job). We've got a bridge up and

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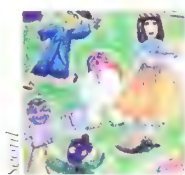
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Manila

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Readers Report

that I would like to show them, in case they're interested in buying.

Eric J. Evans
New York

BEGGING TO DIFFER ON BOEING

"The China connection's Boeing connection" (News: Analysis & Comm-

tary, Mar. 31) mentioned a memo to John Huang from the Council on U.S.-China Affairs about strategy with Boeing and the Chinese Embassy to convert Democrats to back favorable trade status for China. In fact, the board of directors had no knowledge of the memo until you published the excerpt.

Ya Li
Public Relations Liaison
Council on U.S.-China Affairs
New York

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HAS THE GOP ALWAYS BEEN LABOR-FRIENDLY?

In "How labor's campaign blitz made the GOP blink" (Washington Outlook, Mar. 24), you correctly note the unprecedented amounts spent by organized labor during last November's elections. The suggestion that Republican workplace initiatives are aimed at punishing unions is inaccurate. Invoking battleground hyperbole such as "stealth campaign" and "direct assaults," the article states that the GOP's "hit list" no longer includes "brash union-bashing items such as gutting the Occupational Safety & Health Administration, weakening the National Labor Relations

Board, and repealing the Davis-Bacon Act." Unfortunately, Republicans never had a "hit list," nor did we seek to "gut" or "weaken" any federal labor law or agency.

Bill Goodling (R)
Chairman
House Committee on Education
& the Workforce
Washington

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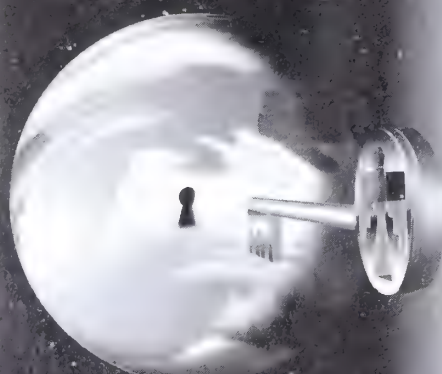
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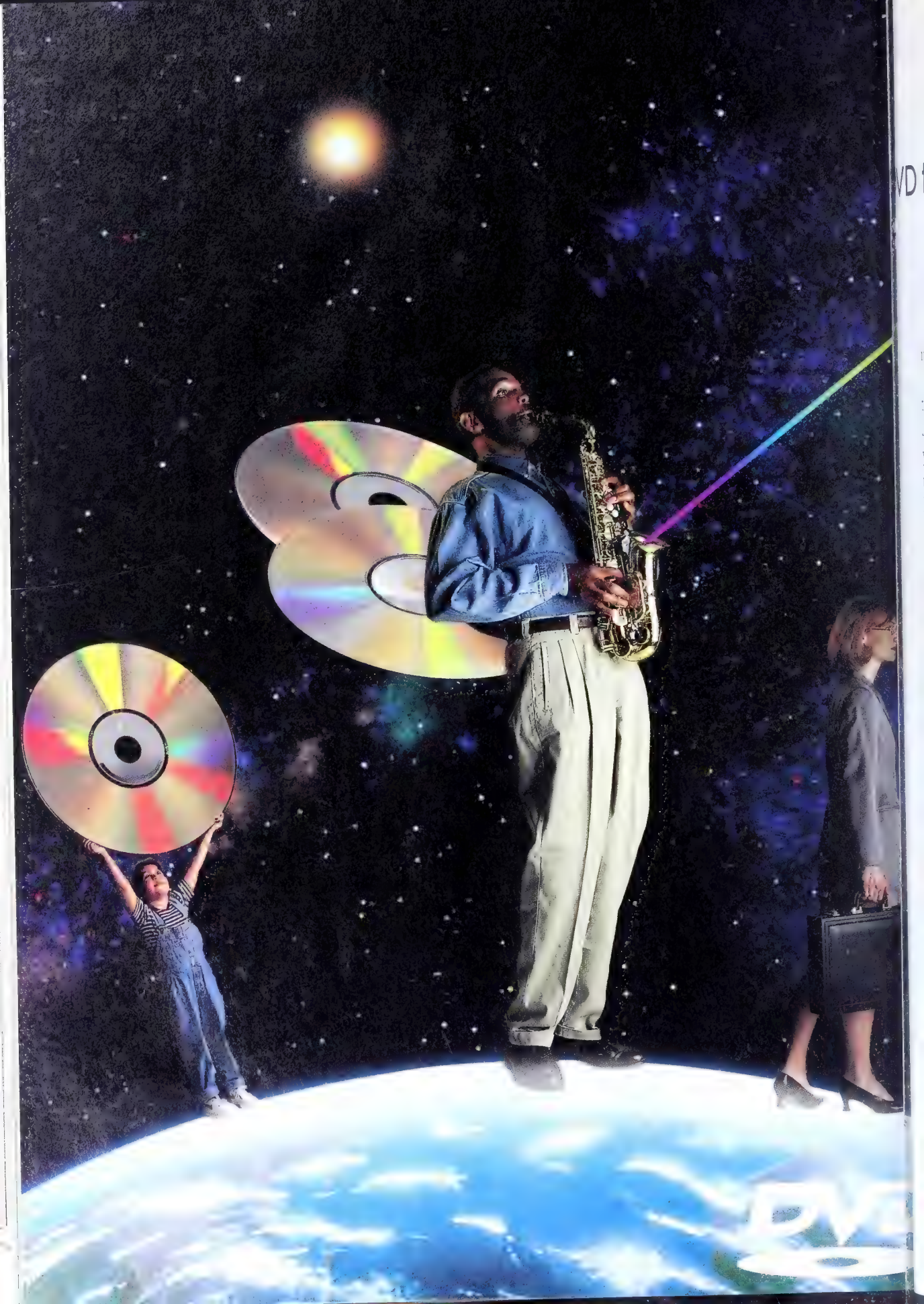
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LOCKED IN THE CABINET

By Robert B. Reich
Knopf • 338pp • \$25

CLINTON'S LONELIEST LIBERAL

This diary of Robert B. Reich's four years as U.S. Labor Secretary might someday inspire an episode of *Star Trek: Destination Earth*. After all, Reich says he sometimes found aides, members of Congress, and fellow Cabinet members looking at him with incredulous expressions that seemed to ask: "What planet are you from, anyway?"

No wonder. Reich found himself the sole "progressive liberal" among a cautious, deficit-hating, bond-market-worshipping cadre of Presidential economic advisers who couldn't wait to rescind Bill Clinton's 1992 campaign promises. Reich, 50, who went to Yale Law School with Bill and Hillary Rodham Clinton, quickly established a special role for himself—a voice of conscience reminding the Clintons of their youthful idealism. As all of official Washington took a giant step to the right during Clinton's first term, Reich was left standing nearly alone, friendless except for his two chums at the White House. What other Cabinet member in Washington was vilified simultaneously by both the AFL-CIO and the National Association of Manufacturers? On the other hand, how many other Cabinet members got to hug the President during Oval Office visits? And who else but Reich could have his memos to the President secretly delivered by Hillary?

Now, Reich has his say in *Locked in the Cabinet*. The book benefits from the author's high-level access, and it offers insight into the warfare within the Administration. But *Locked in the Cabinet* surpasses most recent tell-alls. It is better-written, and it considers serious intellectual questions—such as the role of the worker in the global economy and the morality of replacing striking employees.

At first, Reich, a Harvard University lecturer on public policy who had no

practical experience in politics, was simply an annoyance to his Administration foes. They got Clinton to focus on spending cuts rather than on increases in funding for education and job training, which were Reich's priorities. That left Reich to speak out ineffectually about "corporate welfare" and middle-class anxiety and to suggest hiking taxes on profitable companies that lay off workers.

But after two years, Clinton started to adopt some of Reich's ideas, including such things as college-tuition tax credits, worker retraining programs, a minimum-wage hike, and a ban preventing federal contractors from replacing striking workers. (The ban has since been overturned by the courts.) White House staffers eventually enlisted Reich in the epic battle against their Antichrist: Clinton image doctor Dick Morris, a "packager and promoter" who represents "all I detest in American politics," writes Reich.

Reich admits to defeats and miscalculations. He describes staging a media event at a Bridgestone Tire Co. plant in Oklahoma City to highlight his effort to require improvements in worker safety. Management promptly closed the plant and laid off all employees, forcing Reich to back down. Reich relates that he could not persuade the President to cut defense spending to fund more worker training. Nor could he persuade Clinton not to sign the 1996 welfare reform bill.

Reich's book is often quite amusing. The author of six previous books, Reich is a good storyteller with an appreciation of Washington's many absurdities—and he is willing to laugh at himself.

At one point, Reich tells us, he believed he was on his way to a briefing involving sensitive state secrets—only to find himself led by armed guards into a basement room, where he had to produce a urine sample for a drug test. On another occasion, he got lost in the corridors of the Labor Dept. He was recognized by White House guards, arriving home one night without his keys. The 4-ft.-10-in. Reich tried to wiggle through the dog door and got stuck.

Only when dealing with Congress's insensitive chief executives does Reich's temper flare. Representatives such as Jim Saxton (R-N.J.) and Ernest Istook (R-Okla.) are "fools" and "foons," while William D. Ford (D-Mich.) is a "stubborn ass." Congressional hearings, Reich discovers, aren't about imparting information, but about showing respect to petty tyrants who chair congressional committees. And he calls former Scott Paper Co. CEO Albert J. Elser lap "the poster boy of corporate

irresponsibility" for laying off 11,000 workers. And his pet peeve was yet another White House political adviser. After a period of being patched about the court by twentysomething Reich instructed his staff not to accept marching orders from anyone under his

The book's main shortcoming is its lack of perspective on the Clinton administration. Reich does manage to criticize Clinton for "cavorting on the deficit. He is particularly critical of the President's decision in 1994 to agree to the GOP plan to balance the budget by 2002—and to accomplish it by cutting social spending. Reich says that was "probably a mistake" for Hillary to be put in charge of health-care reform. But he provides little more in the way of perspective.

And last, there's no index. People in Washington always read books in advance, so they can see if they are mentioned. Otherwise, why buy them? Reich was trying to emphasize that he is from another planet, he couldn't have provided Washington with a better demonstration.

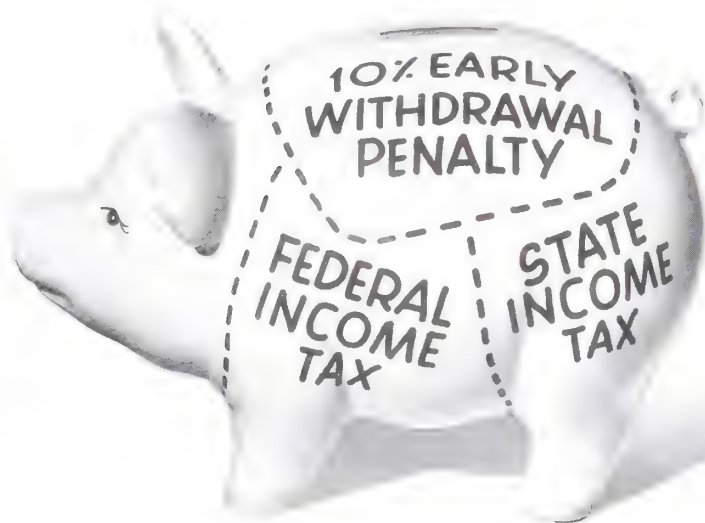
BY PAUL MAGNUSON
Magnusson covered the Labor Dept. during Reich's tenure.

Locked
in
the
Cabinet

ROBERT B.
REICH

THE EX-LABOR SECRETARY CALLS AL DUNLAP "THE POSTER BOY OF CORPORATE IRRESPONSIBILITY"

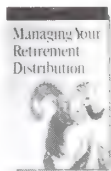
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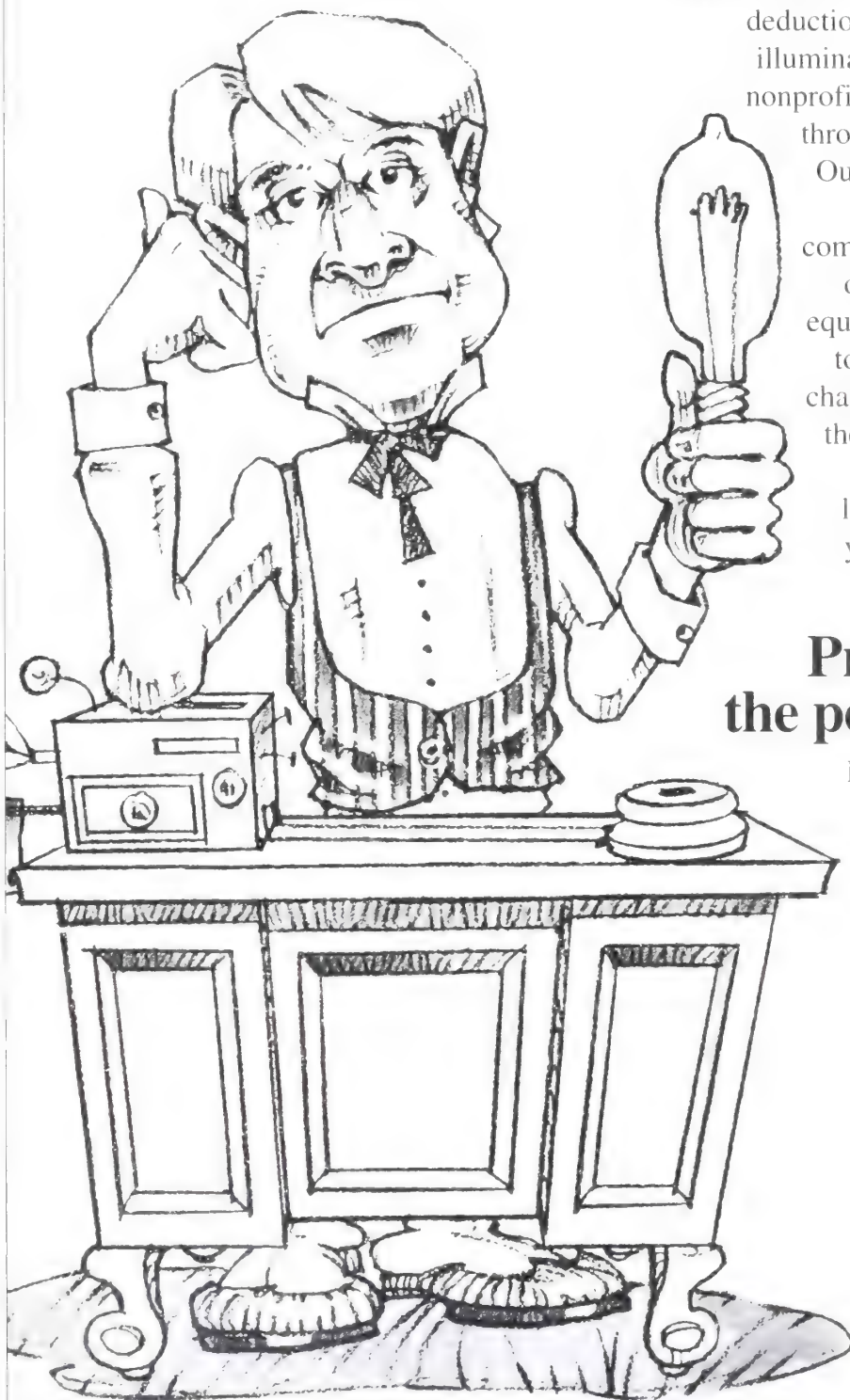
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DAVID WALLACE

RIGHTS WRONG

low-cost voice recognition software promising—but a hard of hearing

this column starts out with some generation and there, it's be- I am dictating it to 9 ater. Translation: If this n starts out with some rish here and there, it's se I am dictating it to mputer.

elcome to the world of recognition technology e mass market. A trio w-cost programs that e text as you speak into rophone are now avail- They are intriguing in own right and offer an glimpse of revolution- possibilities. Truly user- ally computers, whether to work on all day or built into cars, should r bidding at the sound r voices, almost instinc- r. Why should we type r thoughts or go to a al to figure out whether ecise command we re- is "call up" or "get"?

Y. In short, we need a evious version of Hal, talkative computer in A Space Odyssey. rams that convert h to text make a in the right direc- First the comput- must convert the g sound waves of h into the digital ls of computer essing. Then the e are must compare digital signals ust the program's bulary and figure from the context

whether to select "for," "four," or "fore."

Faster computers, improved microphones, larger memories, and fatter hard drives have helped, along with some clever programming. Early versions, some costing \$1,000 or more, mainly assisted lawyers and doctors while providing a test bed for programmers. The software later broadened to general office applications, such as spreadsheets and word processing. And now, stripped-down models of the office programs are available for as little as \$60, with a headset microphone included. IBM's Simply Speaking is leading the way, with Kurzweil's VoicePad and Dragon Systems' Dragon-Dictate Singles close behind.

I found all of these programs devilishly difficult to work in. Just getting the microphone to run with your computer's sound system is no mean feat. And the programs' claim—to provide efficient dictation

as soon as you set up—wasn't my experience.

All three of these applications "learn" your speech. Special routines in which you recite selected words and commands help get you started. But the real training comes as you dictate, speaking in so-called discrete speech, with a pause between each word. When the software misunderstands a word, you must use the proper correction procedure if the computer is to recognize the word next time. Even though the programs claimed accuracy in the 90% range out of the box and 95% or better

for example, if the right word is there, and the program replaces the original word. If the word isn't on the list, which occurred fairly often for me, you can type it in.

If you don't recognize the error until you've finished dictating, the process is more involved. I appreciated the IBM feature that lets you double-click on a word and hear the computer replay what you said. Sometimes the word on the screen was so far off I couldn't remember what word I had used.

LOOK, NO HANDS! I can't recommend these programs unless you type less than 30 words a minute or frequently need hands-free dictation.

I got my best results with the Dragon Systems software. I suggest you stay away from the IBM program. Dragon and Kurzweil use the awkward military alphabet (Alpha, Bravo, Charlie) for spelling, but Simply Speaking has no spell feature. So if you want to refer someone to a Web site, for example, you have to type it in the old-fashioned way.

If you have a problem, such as repetitive strain injury, that prevents you from using a keyboard, voice recognition software could probably help you. But get a version that is more accurate than the bare-bones offerings and works with various programs. More robust versions of the Kurzweil program, for example, start at \$200.

For most people, though, waiting is probably a good idea. Dragon recently announced that it soon will offer a product that works with continuous speech—meaning you don't have to dictate in the slow, stilted, "discrete" manner. And the burgeoning commercial business represented by dictation software should speed up the introduction of new features.



with practice, don't get your hopes up. I found it took hours of using the applications, mainly to compose my E-mail, before I got even close to 90%. And with 90% accuracy, for every message the length of this paragraph, you have to correct 13 words.

The correction process itself takes practice. If you recognize the error right away, speak a command, such as "Oops" with DragonDictate, and a numbered list of similar-sounding words appears. Say, "Take 2,"

DICTATION FOR TIGHTWADS

PROGRAM/COMPANY WEB SITE	PRICE
VOICEPAD/Kurzweil www.kurzweil.com/pcapps/vppro/	\$60
SIMPLY SPEAKING/IBM www.software.ibm.com/is/voicetype/	\$75
DRAGONDICTATE SINGLES/ Dragon Systems www.dragonsys.com/marketing/dragondictate.html	\$100

DATA: COMPANIES, BUSINESS WEEK

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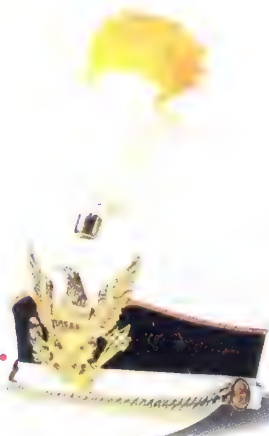
February 26, 1992:
Chrysler minivans are
named top safety choice
in the passenger van
category in *Prevention*
magazine's Safe Car
of the Year Awards.



August 1, 1996:
Chrysler
Town & Country
minivan named
top safety
choice in the
1995 passenger
van category
by *Prevention*
magazine.
(Anyone see
a pattern
developing here?)



November 1, 1995:
New Dodge Caravan is
named *Motor Trend's*
Car of the Year—first time
a minivan wins the award.
Second straight year that
a Chrysler Corporation
vehicle has won.



October 11, 1995:
Accompanied by the
Whetstone HS Marching
Band, Chrysler CEO
Bob Eaton delivers the
five-millionth Chrysler
Corporation minivan to
the Lombard family of
Columbus, Ohio.

Having invented the category, we at Chrysler Corporation knew that tampering with something as popular as our minivan would be a delicate operation. (Of

course, introducing it in the first place was a bit ch too.) But what we finally decided was that the gr risk was resting on our laurels. When making great



May 15, 1992:
Multidisciplinary platform team
begins to work on the next
generation of the minivan.



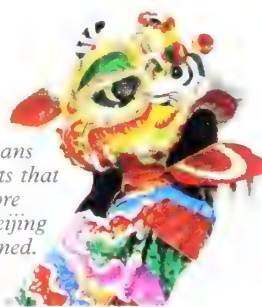
August 1, 1992:
Dodge and Plymouth minivans
get optional sport handling
suspension. Car pools across
America become approximately
37% less boring.



September 18, 1992:
Consumer Attitude
Research announces
that Chrysler minivans
have the highest repeat
purchase rate of any
platform sold in
the United States.*

July 15, 1992:
Platform team reads
letters from minivan
owners asking, "Why
not put a sliding door on
the driver's side too?"

May 9, 1993:
Sales of Chrysler minivans
in Asia pass 2,000. Reports that
minivan interior is more
spacious than average Beijing
apartment are unconfirmed.



March 10, 1995:
New Chrysler, Plymouth, and Dodge minivans reach
new milestones with features including dual front air bags,[†]
dual dual sliding doors, Easy Out Roller Seats,[™] and
extra storage space for the most acquisitive of families.



April 18, 1994:
Fuel-door problem
solved. (Sorry, but
if we told you how,
we'd have to kill you.)



September 15, 1993:
Problem: How to
keep driver's-side
sliding door from
banging into fuel door.

If your goal is to have great cars and trucks, the right decision is usually
obvious. Kind of like the idea of putting a sliding door on both sides of your minivan, come to think of it.

*Based on a survey of new car and light truck buyers conducted during the '92 model-year.

GREAT CARS. GREAT TRUCKS.

 **CHRYSLER CORPORATION**

BY RUDI DORNBUSCH

SAY GOODBYE TO EASY MONEY— AND HELLO TO HIGHER RISK



DOWNTURN?

This stage of the business cycle is the trickiest: If growth tanks but inflation doesn't, investors may take a pounding

The recent Federal Reserve rate hike may turn out to be a prelude to a major change in world monetary policy. Chances are growing for an upturn in German interest rates, and even Japanese rates, dormant for years, may start to rise. Over the next six months the talk of a world upturn in rates may replace the fear of deflation. The end of easy money will be bad news for both asset prices and job growth. But how much trouble is coming?

Last year, U.S. unemployment was low, the growth outlook was so-so, and there was no sign of inflation. Yet there were still calls for a preemptive strike and a hike in rates because of the Fed's past history of being too late and too slow in fighting inflation and because of the long lead times in monetary policy. The Fed deserves credit for not moving in 1996 and permitting another year of job creation.

But now the scene has changed: Price inflation still looks moribund, but wage inflation does not. It has picked up over the past year and, without an offsetting gain in productivity, price inflation is just around the corner. Growth, in particular, continues to be strong enough to reduce unemployment. The Fed cannot rely on the economy slowing down to contain inflation. Fed action was necessary. Just how much depends on the degree of wage pressure that is on the way.

FREIGHT TRAIN MODEL. One view holds that wage pressure is like a freight train—it is slow in coming but very hard to stop. In that case, a 100-basis-point increase in rates may not be enough. A more optimistic scenario gives a lot of weight to competition. The economy is open and U.S. workers remain anxious about losing their jobs to the rest of the world. In this case, wage inflation will ease as growth falls off, and only minor rate hikes will be necessary. The evidence of recent years supports the competition view, while that of the previous decades favors the freight train theory. Over the next few months the markets will have to decide which model is right.

There is another complication. The U.S. clearly has reached the top of the current business cycle, but where are Germany and Japan? After years of near-recession, they appear to be coming back to life. That means short rates of near-zero in Japan will start to rise and German rates, at historic lows, will

also move up. None of that is imminent, but the direction is the same as in the U.S. An end to easy money around the globe means a sweet part of the credit cycle is over. Now investors will start taking a second look.

In recent years, just about any stock or bond was plausible as an investment. Capital gains were the game. When credit is abundant, as it has been, investors are not discriminating: Risk premiums collapse, spreads get compressed, credit ratings soar, and earnings multiples skyrocket. Bulge bonds become plausible, never mind imminent default; Polish bonds are almost as good as U.S. Treasuries. Now, under the scrutiny of tighter credit, investors will be thinking of risk. Even with the benign scenario—featuring a mild increase in interest rates—investors will ask harder questions only because they will wait for the other shoe to drop and rates to rise further.

COURAGE AND LUCK. Over the past decade the Fed, led by Alan Greenspan, has shown extraordinary skill in making the impossible happen gently: Big inflation has been controlled, and steady job creation has made dramatic economic restructuring more palatable. All that took skill, courage, and a little luck. But now the Fed is announcing the end of the easy money cycle and, as far as growth is concerned, it calls the shots. Of course, if we find out too late that world growth is more precarious than it seems—no upturn in Germany and Japan, no robust growth in the U.S.—a good strategy will have backfired and it will be hard to put a new one in place in time.

The present phase is the hardest for policymakers and investors alike. If growth is weak and inflation does not, discontent will be pervasive. There is a real chance of a global recession. And if investors worldwide are skeptical about the easy defeat of U.S. inflation and expect higher rates and less liquidity, a global confidence will disappear. Rather than the markets crashing quickly, with ready opportunities for scavengers, we might face a long, slow slide. Markets could slide ever so slowly, without investors panicking and running. Yet big losses do build up over time. After the euphoria of a boom decade some of the gains may be given back. This isn't quite global doom. But when liquidity goes, the global booming markets does not hang around much longer.

Rudi Dornbusch is professor of economics and management at Massachusetts Institute of Technology

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#2 OUT OF 95
EMERGING MARKETS FUNDS
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TtIRtnLtS	10.08	
Federated A:		
AggrGroA	9.69	9.95
AmLdrA	22.11	22.58
AsiaPacA	9.95	10.01
BondA	9.72	9.79
CapAppA	99.70	102.18
EmMktA	13.37	13.60
EqIncA px	16.04	16.35
EurGrA	11.88	11.98
GrStratA	25.65	26.44
HiIncBdA	11.64	11.67
IntlEqA n	16.90	17.05
IntlHiA	10.10	10.19
IntlIncA t	11.04	11.17
IntSmCoA	13.61	13.86
LtTrmA p	9.85	9.89
LtdMunA p	9.74	9.75
LatAmA	13.37	13.81
MfInt	10.83	10.88
MunSecA	10.49	10.54
PAMunA px	11.53	11.59
SCapStA	15.34	15.75
StrIncA	10.44	10.51
USGvSecA x	7.77	7.86
UtilFdA x	13.27	13.42
WldUtilA	12.81	13.00
Federated B:		
AggrGroB	9.69	9.94
AmLdrB t	22.08	22.55
AsiaPacB	9.88	9.93
Bond B x	9.72	9.79

FEDERATED LATIN AMERICAN
GROWTH FUND RANKED
#6 OUT OF 30
LATIN AMERICAN FUNDS
42.97% TOTAL RETURN*

FEDERATED INTERNATIONAL
SMALL COMPANY FUND RANKED
#1 OUT OF 15
INTERNATIONAL
SMALL COMPANY FUNDS
37.06% TOTAL RETURN*

FEDERATED WORLD
UTILITY FUND RANKED
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INTERNATIONAL UTILITY FUNDS
20.27% TOTAL RETURN*

*According to Lipper Analytical Services
for the period 2/29/96 through 2/28/97.

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0% was the 1-year total return for the World Utility Fund as of 12/31/96; **17.49%, 8.98%, 13.13%** and **10.74%** were the total returns since inception (2/27/96) /31/96 for the International Small Company, Emerging Markets, and Latin American funds and the annualized total return for the World Utility Fund since inception (4/22/94) /31/96, reflecting the 5.5% sales charge. Performance figures at top of page do not include sales charge. Newspaper listing shows current NAV and previous week's NAV high /3/97. Investment return and principal value will fluctuate, so when shares are redeemed, they may be worth more or less than the original price. • Performance shown is for S shares. Total returns would have been lower in the absence of temporary expense waivers or reimbursements. The fund also offers other classes of shares. Performance classes will vary due to differences in charges and expenses. • Foreign investing involves special risks due to factors such as increased volatility, currency fluctuation, and changes in auditing and other financial standards. • **Past performance does not guarantee future results.**

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**HEWLETT
PACKARD**

BY GENE KORETZ

BIG SPENDERS—AND BIG SAVERS

Economists spy an inconsistency

With consumption so strong lately, you might think consumers have been throwing caution to the winds and putting less away for a rainy day. In fact, Commerce Dept. statistics show that the personal savings rate has been moving up since 1994 (chart) and recently hit a four-year high.

This picture of buoyant spending accompanied by stronger savings may well have played a part in the Federal Reserve's decision to push up interest rates. It suggests that, whatever the debt woes of some groups, consumers overall are in good shape to keep on spending briskly—and even dip into savings if something strikes their fancy.

Several economists, however, think the evidence that consumers are squirreling away more cash is questionable. The object of their disaffection is the conventional personal savings rate, which is derived from Commerce Dept. data. Because it is a "residual"—that is, calculated by subtracting consumption from aftertax income and doesn't directly measure anything—this rate can

any—the gap between income and output measures of the economy (BW—Dec. 30). "The true savings rate is probably down sharply," he says.

Both economists believe that the real spur to consumer spending over the past year has been a sizable "wealth effect" resulting from the stock market's bull run in 1994-96. With savings low and spending keyed so much to financial wealth, the risk, says Steinberg, is that "consumers may turn out to be a lot more sensitive to falling stock prices than they were to rising ones."

If he's right, Fed tightening could cause a far more severe retrenchment than the Fed has been anticipating.

CURING EUROPE'S FERTILITY WOES

Sweden may have an answer

Female fertility rates in Western Europe are so low that many nations could experience declining populations in the next century—a development that would exacerbate the heavy economic burden posed by a rising share of elderly citizens. In an article in *Population and Development Review*, demographer Jean-Claude Chesnais looks at one country where this problem appears most severe and then examines another that seems to have developed ways to deal with it.

In Italy, notes Chesnais, the fertility rate has fallen precipitously from 2.4 children per woman in the early 1970s to 1.2 today. In Sweden, by contrast, the rate in recent years has averaged about 2 children per woman—the highest in Western Europe and just below the replacement level of 2.1 children.

The irony, Chesnais notes, is that Italy is still in many respects a traditional, family-oriented country. Only 1 out of every 13 Italian children is born out of wedlock, whereas the rate is 1 out of every 2 in Sweden.

Why, then, has fertility plummeted in Italy? Chesnais singles out two factors: changing social roles for women and reduced benefits for children. As the result of major educational and vocational strides in recent decades, young Italian women want to be more than just wives and mothers—a trend that men seem to be resisting. Meanwhile, the share of child benefits in the government's social budget has shrunk from 13.3% in 1970 to just 3.9% in 1992.

By contrast, the status of women in Swedish economic and political life is



BAMBINI: Italy's output is down

well-established. Some 85% of working women hold jobs, and 40% of members of Sweden's Parliament are women. At the same time, social benefits such as child-care services, paid parental leave for both parents, and child allowances are extensive. With strict laws against deadbeat dads, child poverty is low even in single-parent families.

Sweden's example, says Chesnais, suggests that raising the status of women—and thus their influence on public policy—may be a precondition for returning fertility to replacement levels in advanced industrial nations.

WHO'S GOT A CASE OF THE BLUES

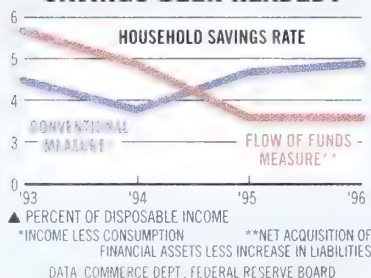
Maybe money can buy happiness

You're more likely to be depressed than unhappy if you live in a central city than elsewhere, report researchers at the National Center for Health Statistics. But their findings, based on survey data on "negative moods," indicate that living farther away from metropolitan areas (and thus presumably escaping the stresses of urban life) doesn't necessarily reduce such mental distress. Indeed, it's hard to avoid the conclusion that economic factors weigh heavily on geography in the psychological equation.

The study reports that rural residents are almost as likely to have negative thoughts or feelings as those in cities, while those least prone to such moods are suburbanites and exurbanites. And negative-mood rates are 50% higher for females than males and 20% higher for those 25 to 44 than for older people. And blacks and high school dropouts are twice as prone to such moods as whites and more educated people.

In sum, in each of these cases, negative moods seem to be most prevalent in the group with the lowest income. Apparently, how much you make has a big impact on how upbeat you feel.

WHICH WAY HAVE SAVINGS BEEN HEADED?



be highly unreliable, argues Bruce Steinberg of Merrill Lynch & Co.

Steinberg's preferred measure is one derived from the Fed's "flow of funds" data. Based on actual financial flows, this savings rate, which usually moves in the same direction as the Commerce Dept. measure, has been trending down since 1992—and touched a record low in the second half of last year.

David A. Levy of the Jerome Levy Economics Institute thinks that overstated savings help explain the recent rise in the so-called statistical discrepancy.

JAMES C. COOPER & KATHLEEN MADIGAN

NO SLOWDOWN UNTIL THE LABOR MARKET COOLS OFF

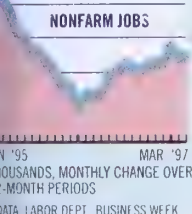
Strong pay and demand for workers are heating up the whole economy

U.S. ECONOMY

If among his wedding gifts Federal Reserve Chairman Greenspan hoped to find a token gesture of weakness from the labor markets, he was surely disappointed. Instead of offering a sign that the economy is cooling and the Fed's work is done, the job markets are showing continued strength—an indication that the economy's momentum is unabated.

That's because employment is increasing at a time when already-tight labor supplies are pushing up wages. More income is fueling the surge in consumer spending, especially for housing and cars. That demand, in turn, is paring down inventories and lifting production, creating even more jobs (chart).

JOB GROWTH IS PICKING UP AGAIN



With a more concrete foundation under demand, suggesting that the economy will not slow until labor markets loosen.

With each new set of job data, it becomes increasingly clear that an ever-tighter labor market—and its ready-evident upward push on wage growth—is the force working against low inflation, especially now when wage gains are outstripping productivity growth. Labor costs appear to have risen sharply in the first quarter. To be sure, it would be politically difficult to justify further interest-rate hikes aimed at curbing wage or pay gains, but those are the main sources of “persisting strength in demand” that the Fed gave as the reason for its Mar. 25 rate hike.

FED MIGHT GET SOME HELP

from an unwind of the stock and bond markets. Higher bond yields would raise the borrowing costs of business investments and housing, while falling stock prices may rattle consumer confidence and also lift the cost of raising corporate funds. If Wall Street's bears really start to howl, they could sour the rest of the economy.

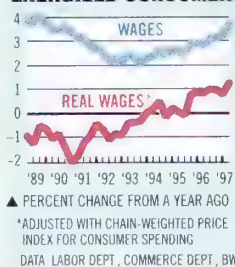
Right now, though, there are no signs that the economy is slowing—or that job markets are loosening. On the contrary, job growth is accelerating, as are real wages, and a record percentage of adults are in the labor force.

Nonfarm payrolls grew by 175,000 slots in March. And even though February jobs were revised down by 46,000, first-quarter gains averaged 242,000 a month, up from 224,000 in the fourth quarter and 171,000 in the third. The March rise was held back by a 27,000 drop in construction jobs, which had surged by 108,000 in February, when the weather was unusually mild.

The real strength in the March employment report was in hours worked. The nonfarm workweek fell to 34.8 hours, but that occurred after a 42-minute jump in February, to 34.9 hours, the highest level in a decade. Total hours worked in the first quarter grew at an annual rate of 3.5%, suggesting that last quarter's growth in real gross domestic product was in the vicinity of 3% or better.

The Labor Dept. also reported that the average hourly wage for production workers rose a large 0.4%, to \$12.15. Wages have grown 4% from their level of a year ago, a pace not seen in seven years. After adjusting for inflation, as measured by the chain-weighted price index used for consumer spending, real wages last quarter grew 1.4% from a year ago, the best yearly pace in two decades (chart).

WAGE GROWTH HAS ENERGIZED CONSUMERS



THE RECOVERY IN REAL PAY

reflects the growing shortage of skilled workers. The unemployment rate fell back to 5.2% in March, and it is likely to slip lower in coming months, pushing real wages even higher. That's because a record 67.3% of adults are in the workforce, and the labor force is growing faster than the total adult population. Part of that may be due to welfare recipients' jumping into the labor pool before they are pushed. But at some point, gains in the workforce have to slow down to reflect the underlying trend in population growth. That's when the jobless rate will dip.

In fact, there's a good chance that the jobless rate will slip below 5% by summer, because the demand for labor looks solid. The Conference Board's index of

help-wanted ads jumped to 90 in February, up from 87 in January. The last time the index was that high was in December, 1994, and the economy went on to generate 1.2 million new jobs over the next six months.

Some of the new jobs are sure to be in the factory sector, where payrolls are finally rising. Manufacturing jobs increased by 16,000 in March, the sixth consecutive gain. The workweek edged up to 42.1 hours, from 41.9 hours, propelled by a record 4.9 hours of overtime.

LONGER OVERTIME suggests that industrial output increased solidly in March, and future gains are likely, since inventories in relation to sales look pretty sparse. Of course, the ratio of business inventories to sales has been falling for more than a decade. So it is important to separate the drawdown in inventories that is structural—the result of just-in-time inventory decisions, for example—from the decline that is cyclical—caused by business underestimating demand.

That distinction suggests that although the factory inventory-sales ratio is at a record low, manufacturing stock levels are about where they should be, given JIT strategies. But wholesale and retail-trade inventories are well below acceptable levels. Consequently, those businesses will need to restock their shelves, and their orders will propel manufacturing forward.

Retailers and distributors will be more likely to place new orders if they expect their customers to

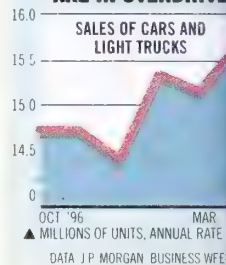
keep coming back. And consumers are still spending.

Sales of motor vehicles shot up in March. Purchases of cars and light trucks increased 3.3%, to an annual rate of 15.7 million. For the first quarter, vehicle sales are running 4.8% above their fourth-quarter 1996 (chart). Overall retail sales seemed to have done well in March, thanks to tax refunds and an early Easter. Together, real consumer spending last quarter seems to have grown at an annual rate of 5% or more.

April could bring a pause in the shopping frenzy. Mutual-fund investors will have to pay taxes on last year's market gains. And with Easter in March, apparel sales may drop off. In fact, weekly retailing reports show that sales fell in the first week of April.

But those drags are temporary. The more important supports under demand—jobs and income—will reassert themselves in May. For those hoping to see signs of a slower economy that will ease potential inflation pressures, the first clues will be in the job data. But as long as the labor markets continue to supply consumers with employment opportunities, rising pay, demand in this economy will not taper off, and the Fed will have more work to do.

VEHICLE SALES ARE IN OVERDRIVE



FRANCE

DESPITE HIGH EXPORTS, LOW EXPECTATIONS

Finance Minister Jean Arthuis is being more careful this time. Last year, Arthuis projected 1996 economic growth of 2.6%, only to end up with half that.

This year, in an update of its official 1997 forecast, the Finance Ministry has decided to stick to its earlier projection of 2.3%, even though Arthuis believes that growth will be better than that. Last year's shortfall was poorly received in the financial markets, and the government doesn't

want to jeopardize the credibility of its 1997 deficit projection so crucial to France's qualification for a single-currency Europe.

Private economists think the growth target is achievable. Right

now, the economy is firing on only one cylinder—foreign trade—but a broader upturn should be under way later this year. Buoyant foreign demand and a 10% drop in the franc vs. the dollar over the

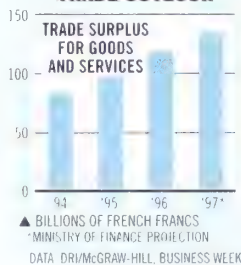
past six months will fuel further export gains. France's trade surplus hit a record 120 billion francs (\$21 billion) in 1996, and this year's surplus will top that (chart). Strong exports are reducing excess inventories, clearing the way for production to pick up in coming months.

However, a broader recovery depends on stronger domestic demand, but that will have to wait until the second half. Recent data on consumer spending, housing

starts, and industrial output do not look encouraging, especially with joblessness at 12.8%. Still, the Bank of France's 3.1% intervention rate, the money-market floor, is the lowest since 1973. Low interest rates are lifting prospects for housing and durable goods, with new-car registration up strongly in March. Low rates and better growth prospects also will encourage capital spending.

Even if the numbers brighten up in the second half, low operating rates and high joblessness suggest that the economy has plenty of room for noninflationary growth. Inflation is expected to stay in the 1%-to-1.5% range in the second half, eventually giving the Bank of France leeway for a further slight cut in official interest rates that will bring them in parity with German rates.

FRANCE'S BRIGHT TRADE OUTLOOK



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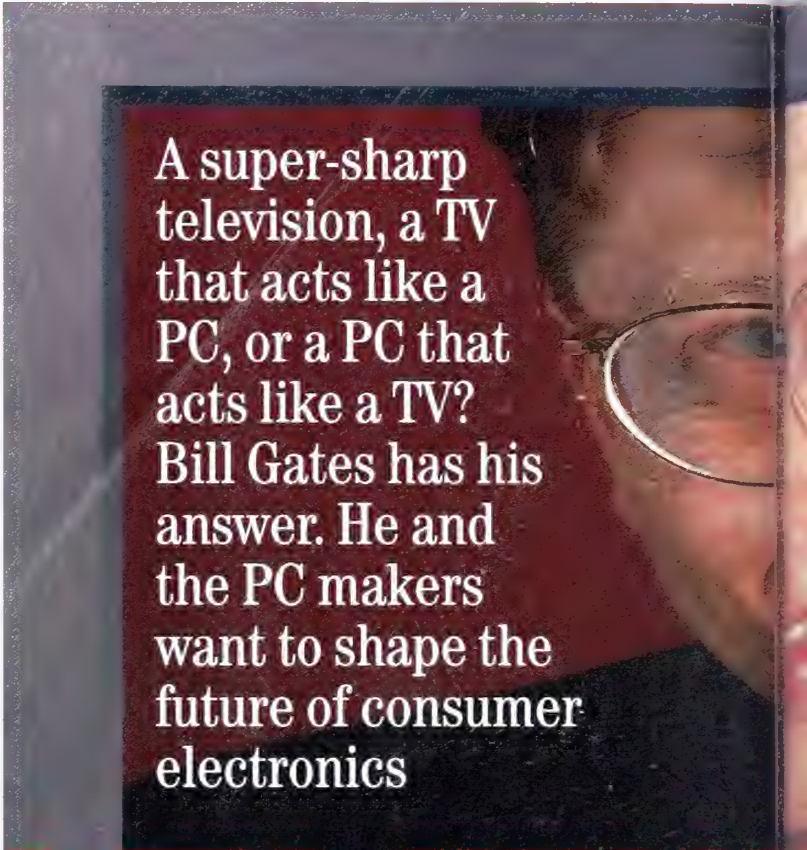


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William H. Gates III has never been a big TV watcher. But now that digital television is coming, he's suddenly fascinated by that tube in the living room. It's not the idea of catching *Roseanne* in the wide format of high-definition television that appeals to him. He's thinking about the 21st century, and how hundreds of millions of consumers around the world could be using Microsoft software to view Microsoft content on hybrid TV-computers.

The newfound interest in television by the mogul of Microsoft Corp. and his allies in the computer industry guarantees heightened conflict with broadcasters and television-set manufacturers. Those folks have spent the last decade wrestling with the Federal Communications Commission and one another to set the ground rules for the kind of TV sets and broadcast format to use when the U.S. switches over to a digital system. So the broadcasters aren't welcoming Gates's message. The likely upshot: The transition to digital TV will be dragged out by interindustry sniping. "It's a grand turf war," says Lee McKnight, an associate director at Massachusetts Institute of Technology's Center for Tech-



A super-sharp television, a TV that acts like a PC, or a PC that acts like a TV? Bill Gates has his answer. He and the PC makers want to shape the future of consumer electronics

DIGITAL TV: WHAT

nology, Policy & Industrial Development.

Separating the camps are widely different concepts of what the new box in the living room should be. Digital TV could be as simple as a new set with movie-screen proportions and dazzlingly sharper pictures. But it could also be a hybrid—a personal computer with a big screen, or a TV with a PC's smarts. How that shakes out could determine the shape of the consumer-electronics business. If they're TVs, suppliers such as Sony and Zenith Electronics Corp. will lead the market. If they're PCs, companies such as Compaq and Gateway 2000 could prevail. Then there's the question of what consumers will want—a crystal-clear picture, or a moderately sharper one accompanied by new digital services, such as detailed sports stats? Or will a nation of Web-surfers tune in broadcasts on their PCs?

At the start, broadcasters have the

biggest say in the outcome. On Apr. 3, the FCC signed off on a deal to lend each TV station a second channel—free—to transmit digital television and other material of their choosing starting in 1998. That means a new, high-capacity, digital pathway to the home is fully under the broadcasters' control. The FCC is also letting broadcasters send digital-television signals in the "interlaced" format (the term refers to how images are painted on the screen) used on today's sets. That's a victory for the TV-makers: Or-

inary personal computers can't handle interlaced signals. Last year, Gates led an unsuccessful lobbying campaign to get the FCC to mandate a PC-compatible "progressive scanning" format.

But that was one battle, not the war. The computer crowd is pushing ahead with dozens of digital-TV plans. On Apr. 6, Microsoft announced it will buy WebTV Networks Inc.—a startup whose \$50 million set-top device provides Internet access through the TV. The deal—for \$425 million in stock and cash—gives Micro-

TUNING INTO DIGITAL TV

Now that the FCC has set a schedule for rolling out digital TV, various interests are pushing their agendas:

TV MAKERS

Sony, Philips, and others will build souped-up sets that can also receive data. They say consumers don't want PCs in their living rooms.

BROADCASTERS

NBC and others plan to transmit their programs in a TV-friendly format. They hint that PCs that aren't equipped for that will get blank screens.



WILL IT BE?

st commercially viable hybrid that to the merger of television and Internet. The WebTV Internet service also a logical outlet for program—such as the Microsoft Network and SNBC joint venture with NBC. Other programmers are also developing material suited for WebTV and, today, digital TVs. CBS Inc., for one, start a murder docudrama called *Case* on Apr. 18, with clues on Web site for viewers with Internet. “My show was made for WebTV,”

says producer Tim Johnson. “Watch the show, then get right into the data without even leaving the couch.”

PC makers boast that PC/TV devices that they are developing will give them a huge new market opportunity. They’ll push beyond the 40% of homes that now own PCs into the 98% that have TVs.

TV makers dismiss the notion that consumers want anything terribly complex perched across from the couch. “Consumers don’t want to boot up a TV and have it crash,” says Gary Shapiro,

president of the Consumer Electronics Manufacturers Assn. Grumbles Gregg Gronowski, vice-president of consumer product management for Zenith: “There seems to be a race to slam a Pentium into everybody’s television. There’s not a lot of sense to that.”

Some gritty technical issues also divide the two sides, such as the mode of displaying data on a screen. Last December, the FCC opted to let the market decide what formats to adopt. TV makers vowed to support a complete set of 18 possible formats for how sharp a televised picture will be and how material from different sources, such as film or video, will look on the screen.

The PC-industry leaders have their own ideas. Microsoft, Compaq Computer, and Intel on Apr. 7 set forth a proposal for just three basic display formats—not including the broadcasters’ preference, interlaced. PC makers contend that would cut costs dramatically—to only about \$100 on top of the cost of a \$1,500 PC, vs. at least \$2,500 for digital TVs that are capable of displaying all 18 formats. Broadcasters, however, worry that some of their material might not show up on these PCs. Says Michael J. Sherlock, NBC Inc.’s executive vice-president of technology: “I want 100% of the households who buy a new digital TV appliance to have the ability to receive it in full high-definition. I don’t think the computer guys will be able to show that.”

“WHERE’S THE BOOTSTRAP?” PC makers figure they have a way to change the minds of broadcasters and TV makers—by getting to market first. Robert W. Stearns, a Compaq senior vice-president, says he expects the PC industry to sell up to 40 million PCs equipped with digital-TV decoders by 2002. That compares with the consumer-electronics industry’s estimate of 1 million digital TVs for the same period. TV makers can’t sell enough digital sets to stimulate creation of new digital content, argues Gates. “Where’s the bootstrap?” he asks. “How are you going to get enough viewers?”

And, computer-industry executives point out, they may not need to worry about what broadcasters want. If they can deliver tens of millions of “viewers,” they figure programmers will circumvent the broadcast nets, by using the Internet, cable television, or satellites. “While [broadcasters] do have a bottleneck facility now, they understand that’s not a sustainable position,” says MIR’s McKnight. Broadcasters counter that no format can succeed if it doesn’t have the popular programs they own.

Don’t expect any clear-cut victories, though. In this converging market, it’s

MAKERS

Gateway 2000, s are betting interactivity and of PCs will n best for

MICROSOFT

By buying WebTV Networks and working with PC makers, the software giant is hoping to extend its influence to the 98% of homes with TVs.

PROGRAMMERS

Content creators like any and all digital TV schemes because they allow new kinds of programming and new outlets for existing programs.

hard to find anybody who's locked into one camp. Take TV maker Sony. It manufactures the WebTV device, whose destiny is now controlled by Microsoft. It also makes PCs and video production equipment that's tied closely to broadcast standards. So Sony stands to win no matter which standards catch on. NBC,

meanwhile, is a partner with Microsoft in MSNBC, but its technology gurus such as Sherlock are wary of Gates's plans.

Will the battle for digital-TV lead to digital convergence in the global electronics industry? "We all depend on each other to create this digital revolution. None of us can do it alone," says

Michael D. Culver, vice-president and general manager of the consumer division of PC maker Acer America Corp. That's why, for now, the main action in digital TV will take place off screen.

By Robert D. Hof in San Francisco with Gary McWilliams in Houston; bureau reports

PAUL ALLEN, EVERYWHERE MAN

How many hats can one busy billionaire wear? Microsoft co-founder Paul G. Allen may be going for a record. He has founded or invested in dozens of technology, new-media, and entertainment companies. Over the years, his holdings have grown to include stakes in DreamWorks SKG, Ticketmaster, c/net, and others. He's a nearly ubiquitous presence in the world of digital "content."

So ubiquitous, in fact, that the 44-year-old finds himself in situations that could lead to thorny questions about where his allegiances lie. Can Allen fulfill his fiduciary duties to Microsoft Corp.—where he's a director and the second-largest shareholder—while not slighting his other companies?

WEBCAST NEWS. Two recent deals point up the risk. On Apr. 3, Walt Disney Co. announced that it was acquiring a stake in Allen's Starwave Corp., a producer of CD-ROMs and Web sites. Starwave, where Allen remains the largest single shareholder, is developing a 24-hour news site with Disney's ABC called ABCNEWS.com. Microsoft competitors Netscape Communications Corp. and America Online Inc. are also partners in ABCNEWS.com. The site will compete with MSNBC, which is owned by NBC and Microsoft. Industry sources estimate that Disney paid \$100 million for 30% of Starwave.



ALLEN: His WebTV gain: \$38 million

Then, on Apr. 6, Microsoft announced it was paying \$425 million to acquire WebTV Networks Inc., which has a system for letting consumers cruise the Internet via their TV sets. Allen, who paid about \$10 million for a 9% stake in WebTV, will receive \$38 million in the deal. Neither Allen's spokeswoman nor a Microsoft spokesman would say whether or not Allen voted with other Microsoft directors on the deal.

In Silicon Valley, blurry loyalties are commonplace. Venture capitalist Arthur Rock served simultaneously on the boards of Apple Computer Inc. and Intel Corp. And to his credit, Allen appears to have no "secret agenda," says Stanford University law professor Joseph Grundfest. "As far as I can tell, no one has pointed to a situation where

anyone was disadvantaged by Allen [overlapping] involvement."

Still, the potential for conflicts is growing. "There's a possible antitrust problem here," says corporate-governance expert Nell Minow of the Leff Fund. "If both companies are in the same business, there's no way a human being can give each of them the best of his energy and focus. [Allen roles] create an appearance problem that an investor really shouldn't have to worry about."

HANDS OFF. Allen's spokeswoman says he "is very cognizant" of the possibility of conflicts and "takes steps to mitigate that on a personal level." She points out that Allen is not involved in the day-to-day operations of Microsoft or Starwave.

Microsoft Chairman William H. Gates III has no qualms about his pal's extracurricular activities. "The fact that Paul's out making investments in these things makes him a better [Microsoft] director," Gates says. In fact, Allen's far-ranging business interests helped him grasp the significance of the Internet before Gates did. Still, Allen's networking is hardly a model for corporate governance.

By Elizabeth Lesly in New York

Too Many Hats?

Billionaire Paul Allen is Microsoft's second-largest shareholder and still sits on the board of the company he co-founded. But his other interests may pose potential conflicts.

STARWAVE It makes interactive games and operates Web sites such as ESPNet/SportsZone. Although Allen remains the largest shareholder, Disney recently bought a stake and plans an ABCNEWS.com Web site to compete with MSNBC, a Microsoft-NBC joint venture.

DREAMWORKS SKG Allen owns nearly 20% of the fledgling film studio. Through DreamWorks Interactive, a joint venture with Microsoft, DreamWorks competes with Starwave's game business.

WEBTV NETWORKS Allen was an early investor, with a 9% stake. Microsoft will acquire WebTV for \$425 million, netting a big return for early investors like Allen.

SECOND SET OF BOOKS' FOR THE DEMOCRATS?

DNC directed unreported donations to key states

had been a long night of back-to-back fund-raisers in Washington last July 30. But an indefatigable President Clinton pressed on with his third dining on sea bass at a dinner staged by controversial fund-raiser Huang with a select group of Taiwanese-American businessmen and their families at the swank Jefferson Hotel. The dinner pulled in nearly \$500,000 in "money" for Democratic Party access—and more. Several weeks later, attendee, Ken Sen-Jong Hsui, wrote \$100,000 in checks directly to 17 organizations in the battleground states—California, Illinois, Florida and Michigan. Those donations, some in the hundreds like the \$100,000, are raising questions about whether the Democratic National Committee, with the White House help, skirted federal election laws by directing donors to contribute their money into state party coffers. The pattern of giving can be seen in recently released documents of former White House Deputy Chief of Staff Dick M. Ickes.

IG AGAIN. The files show the DNC funneled \$4 million into key states. That at the DNC could avoid reporting donations to the Federal Election Commission, which only regulates federal giving. The implication: "You have a national party running a second set of books with money they didn't report appear to have controlled," says former FEC official Kent C. Cooper, now director of the nonpartisan Center for Responsive Politics. "These are questionable practices that could be skirted by the law." A DNC spokeswoman says giving was perfectly legal.

The new disclosures mean the Democrats raised more than the \$124 million in money they reported to the FEC. However, the files point to an even bigger fund-raising role for Huang than the Democrats have previously acknowledged. For example, the \$110,000 from Sen-Jong Hsui (pronounced shoe), owner of Taiwan's Prince Motors Co., was solicited by Huang. Contributions by Hsui, who has dual U.S. and Taiwanese citizenship, seem legal. Yet the DNC appears to have wanted to hide them. A source

says one possible reason is that Hsui's family is close to Taiwan President Lee Teng-hui, and the contribution could be a thank-you to Clinton for having allowed Lee to visit the U.S. in 1995. Hsui did not return phone calls. Repeated calls to the White House went unanswered.

The White House may have wanted to hide \$150,000 in donations from Philip Morris Cos. and R.J. Reynolds Tobacco Co. These donations, beyond the \$62,500 in soft money the companies openly gave

to the DNC, came at a time when the Administration was calling for tighter in-



All Over the Map

Where some of the directed dollars went:

STATE	AMOUNT	SELECTED DONORS
CALIFORNIA	\$428,000	R.J. Reynolds; Union Pacific; Greek-American steel exec Nikos Kefalidis; Praitun Kanchanalak, mother-in-law of Thai businesswoman Pauline Kanchanalak
ILLINOIS	344,000	Teamsters union; Chippewa Indian tribe
OHIO	329,000	Ex-Rose law firm partner Joseph Giroir; Atlanta lawyer David Cofrin
MICHIGAN	303,000	Ohio business exec Carl Lindner; Pamela Liapakis, past president of the Association of Trial Lawyers of America
FLORIDA	289,000	Williams Oil; Ken Sen-Jong Hsui, a Taiwanese-American businessman

DATA: WHITE HOUSE, DEMOCRATIC NATIONAL COMMITTEE DOCUMENTS, BUSINESS WEEK

dustry regs and criticizing GOP candidate Bob Dole's tobacco support. An RJR spokeswoman says the DNC solicited the contributions and told RJR which states could use the money. Was the DNC trying to hide the donations? Says the spokeswoman: "That's certainly one of the conclusions that could be reached. This is the irony of the whole thing, with [the campaign] taking a stand against tobacco money and yet accepting it through other venues." Philip Morris did not return calls.

Still other givers may have raised red flags at the White House. Pauline Kanchanalak, a Thai dealmaker who helped arrange White House dinners and coffees for ethnic Chinese execs, was directed along with several family

members to send \$223,000 into five states. This is on top of \$253,000 the family donated to the DNC, most of which has since been returned. Kanchanalak's giving is under investigation by the Justice Dept. and Congress.

Some donors may have had their own reasons for laying low. The Chippewa Indian tribe of Sault Sainte Marie, Mich., for example, poured \$150,000 into five states. The checks were written one day before Clinton was to name members of a federal commission to study gambling issues of vital interest to the tribe. A Chippewa spokeswoman says the timing is a coincidence.

ICKES FILES. Similarly, Carl H. Lindner's American Financial Corp., which owns the Chiquita banana operation, gave \$70,000 to seven state funds, on top of \$115,000 he donated to the DNC. The state checks went out on Apr. 12, 1996, a day after the U.S. filed complaints with the World Trade Organization against Europe's banana import limits. Lindner did not return calls. Donations by Pamela Liapakis, past president of

the Association of Trial Lawyers of America, came three weeks after Clinton's veto of the tort reform bill. Liapakis would not comment.

Some of the state party recipients are perturbed that the DNC directed this money to them. Ohio Chairman David J. Leland is said by another state Democratic official to be upset that 10% of the \$1.1 million he got from the DNC in '96 was questionable money, because he is worried he may have to return it. Leland did not return calls.

These revelations from the Ickes files suggest a whole new dimension to Democratic fund-raising excesses. The trail of potential campaign-finance abuses now extends to at least 40 states.

By Paula Dwyer in Washington

HEALTH CARE

HOW KAISER'S COST-SLASHING NICKED ITS IMAGE

Two big states suspect the HMO may have cut corners, too

In its 51 years, Kaiser Permanente, the nation's oldest health maintenance organization, has prided itself on providing quality care. Indeed, the Oakland (Calif.) nonprofit spends 98% of every health-care dollar it receives on patient care. That has helped the \$13 billion behemoth sign up some 7.9 million members nationwide, more than any other HMO. But these days, Kaiser's sterling reputation is being tarnished.

In recent months, state and federal authorities have launched investigations into Kaiser practices in Texas and California. The probes examine issues ranging from inadequate staffing at hospitals to poor emergency-care service and, in Texas, a high number of wrongful-death suits. They follow sweeping efforts initiated by Kaiser to control costs, raising the question of whether Kaiser may be cutting too deeply. "That's a big concern we've had with HMOs in general," says Reggie James, the Southwest regional director for the Consumers Union. "In an effort to be more competitive and cut costs, they are cutting services." Kaiser vehemently denies any wrongdoing.

PRIME TARGET? Kaiser's biggest woes are in the Lone Star State, where it's among the top 10 HMOs and is in a nasty legal battle with the Texas Insurance Dept., which regulates HMOs. In a yet-to-be-released report, Texas officials are highly critical of Kaiser. Court papers filed in a dispute over releasing the report indicate that the review stemmed from numerous



THE ALMANY
IN '88: Was
Trevor's death
due to delays?

complaints about poor-quality care, allegations that Kaiser improperly discourages emergency-room care, and the filing of at least 20 wrongful-death suits against the HMO in the Dallas-Fort Worth area. Insurance Dept. records also indicate that Kaiser has lost some \$71 million since 1991 in Texas.

One wrongful-death suit was brought in 1995 by Tracey M. Almany, whose husband, Trevor, died in December, 1993. The suit alleges that Kaiser's network physician and its Texas subsidiary were grossly negligent in improperly diagnosing her husband's heart condition and failing to get him admitted to the closest emergency room. Kaiser de-

clined to comment on the suit, which is pending in U.S. District Court in Dallas. But Kaiser's Texas spokesman David O'Grady, says that because Kaiser is the only HMO in Texas to assume legal liability for its doctors, it is named in a disproportionate amount of malpractice suits. As a result, O'Grady says, Kaiser is a more likely litigation target than competitors.

Kaiser recently won a state court order sealing the Texas report, which O'Grady calls "flagrant through and through" and "loaded with inaccuracies and erroneous conclusions." Kaiser contends that officials botched the investigation, misapplied the law, contradicted reports by their own consultants, and attempted to release confidential information. On April 18, Kaiser will ask the court to continue the injunction sealing the report.

SHUTTERED HOSPITALS. Meanwhile, Texas State Attorney General Dan Morales says there are "sufficient grounds and justification" for the state to yank Kaiser's HMO license. Morales says those grounds are separate from findings in the report. He says his office has received complaints about Kaiser skimping on emergency-room services—even though the company in 1995 settled a lawsuit with Morales' office over denial of benefits to Kaiser members who received emergency care at non-Kaiser facilities. "We now have indications that, essentially, Kaiser is going back to their old practices," he says. O'Grady says that there is no basis for shuttering the HMO's Texas operations.

Back in its home state, Kaiser faces a probe by California's Health Services Dept. In conjunction with the federal Health Care Financing Administration, California is looking into four patient deaths in the emergency room at a Kaiser hospital in Richmond. On April 18, Kaiser Chairman David Lawrence conceded that Kaiser's own investigation

WHAT AILS KAISER

LAWSUITS

Kaiser has faced at least 20 wrongful death suits in the Dallas-Fort Worth area since 1990. California state officials are investigating four deaths in a Richmond hospital.

LICENSE REVIEW

Texas Attorney General Dan Morales says the state has "sufficient grounds" to revoke Kaiser's license. Issues include quality-of-care concerns and \$71 million in losses since 1991.

CREDIBILITY

A yet-to-be released report by the Texas Insurance Dept. accuses Kaiser of discouraging members from using emergency services, possibly violating a prior agreement not to do so.

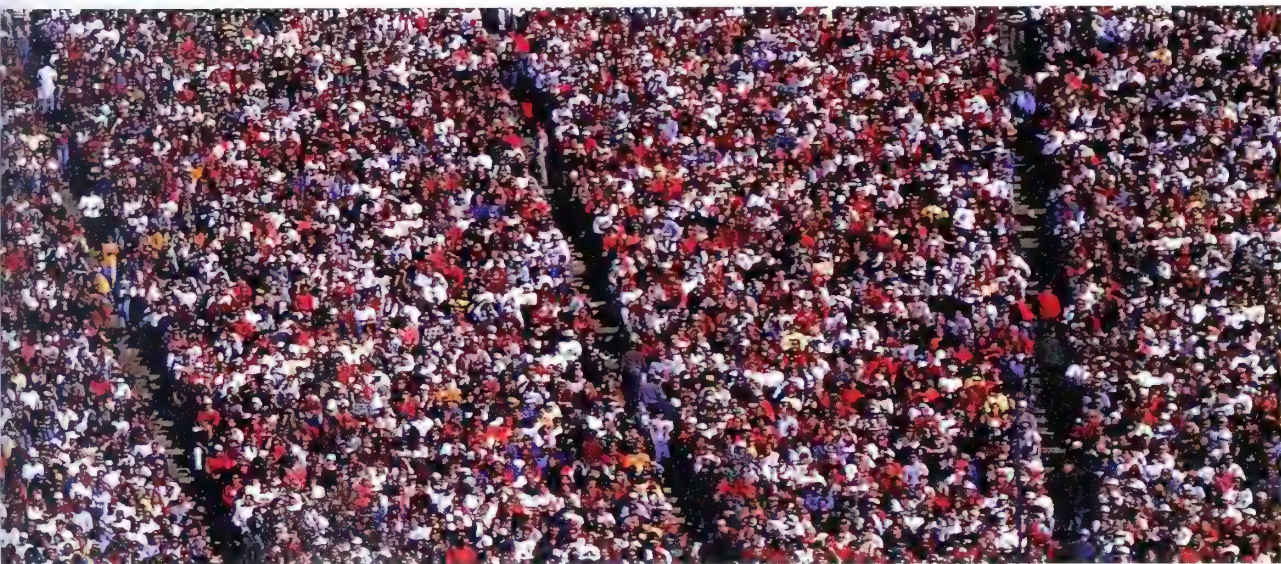
LABOR UNREST

The California Nurses Assn. has called a one-day strike at many Kaiser clinics and hospitals. Nurses, who want better pay and benefits, have also voiced concerns about Kaiser's quality of care.



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showed that the emergency room does not meet federal standards. Problems included inadequate medical documentation and staffing.

Again, cost-cutting may be to blame. The complaints about the Richmond facility arose after Kaiser scaled back services there and set plans to shutter two of its five hospitals in the East Bay, near San Francisco. That move

has infuriated the California Nurses Assn. In a complaint lodged with the California Corporations Dept., which oversees HMOs operating in the state, the nurses charge that quality of care has fallen since the hospital closings. The union, which represents about 25,000 nurses in Northern California, plans a one-day strike against Kaiser on Apr. 16.

Kaiser says it is working diligently to clean up its act. "There's been a lot of bashing. But the fact is, we've acknowledged the problems, and we're correcting them," says spokeswoman Beverly Hayon. That may give little comfort to the likes of Tri-Alpha.

By Stephanie Anderson Forester in Dallas and Eric Schine in Los Angeles

COMMENTARY

By Catherine Yang

MONEY AND MEDICINE: PHYSICIAN, DISENTANGLE THYSELF

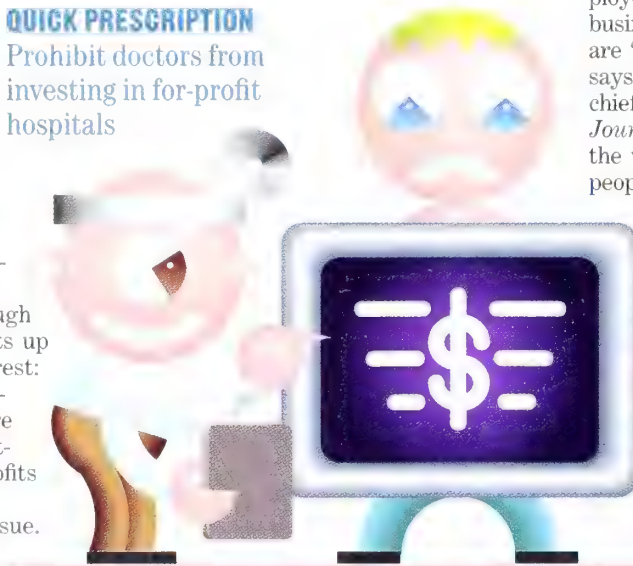
Even if the investigation into possible fraud at Columbia/HCA, the nation's largest for-profit hospital chain, never leads to a trial or a conviction, it has already accomplished something important: It has drawn public attention to a problem that has been festering in the U.S. health-care industry for the past five years. Among other issues, the probe is focusing on the various financial arrangements that the company uses to recruit doctors—deals that include giving physicians a stake in the hospitals where they refer patients. That practice, though not necessarily illegal, sets up a massive conflict of interest: Can doctors strive to provide the best possible care while at the same time attempting to maximize profits for the hospital?

It's not a brand new issue. Doctors have had stakes in hospitals, clinics, and other facilities for years. But, as health care continues its restructuring into a mostly for-profit system, hospital operators have grown more aggressive in cutting deals to get top doctors. The name of the game is to bring in the physicians who can bring in the business. But once the doctors are owners, they have every incentive to cut costs by sometimes denying care or to boost the bottom line by sometimes prescribing a more costly course of treatment.

Figuring out a way to reward doctors appropriately in the new system—while ensuring quality patient

care—is the "most important topic to be addressed in health-care management over the next five years," says Peter S. Stamos, a New York City health-care consultant. In the meantime, there is a foundation on which immediate reform measures can be

QUICK PRESCRIPTION
Prohibit doctors from investing in for-profit hospitals



built. In 1972, Congress passed an antikickback law prohibiting inducements to physicians to make referrals for Medicare business. In 1989 and 1993, lawmakers followed up with the so-called Stark laws, which essentially barred doctors from referring patients to certain medical facilities in which the physicians have a financial interest. As a result, in many cases, a doctor can no longer own a testing facility and ship patients there.

The first step is for prosecutors to enforce existing laws. Then, lawmak-

ers should extend the laws' reach. Under current statutes, doctors can own up to 40% of a hospital as long as no more than 40% of hospital revenues come from their referrals.

Here's a better idea: Ban doctor investments in hospitals altogether. Employee ownership is fine for many businesses. But doctors and hospitals are "not selling a product like shoes," says Dr. Arnold S. Relman, editor-in-chief emeritus of the *New England Journal of Medicine*. "We deal with the vital personal interests of how people live and die." For-profit hospitals don't need doctors' capital. And the efficiencies physician ownership encourages are vastly outweighed by the potential for harm to patients.

NEW LAWS. The Columbia probe also raises broader questions about physician compensation. As the nation moves deeper into for-profit medicine, physicians are seeing more of their practices tied to financial incentives. One example: capitation deals in which insurers pay physicians fixed annual fees to cover each patient's treatment. Critics

say such schemes encourage doctors to withhold care. Now, several states are considering proposals to regulate capitation.

Certainly, hospitals and doctors both must operate more efficiently. But the health-care world must strike a balance that preserves high-quality care. That way, doctors can refer to the Hippocratic Oath, rather than their investment portfolios, for inspiration.

Yang covers consumer issues.



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AUTOS

LABOR TAKES THE AIR OUT OF GM'S TIRES—AGAIN

Just as sales get pumping comes a rising threat of more strikes

Gordon Stewart has been having a tough time keeping up with demand for Malibu sedans and Venture minivans at his three Chevrolet dealerships in Florida and Michigan. But just when it seems his pleas for more cars are being heard back at headquarters, General Motors Corp. has been caught in another brush war with the United Auto Workers. On Apr. 4, workers at the Malibu factory in Oklahoma City walked out. "It never fails," he moans. "When I finally get enough inventory, a strike hits."

Labor troubles are once again taking the air out of GM's tires—and right at a time when GM shows signs of a comeback from years of market-share decline. Thanks to new models such as the Malibu and well-executed redesigns of old standbys such as the Pontiac Grand Prix and Buick Park Avenue, GM racked up an impressive 4.1% sales gain in March—while Ford Motor Co. and Chrysler Corp. posted declines.

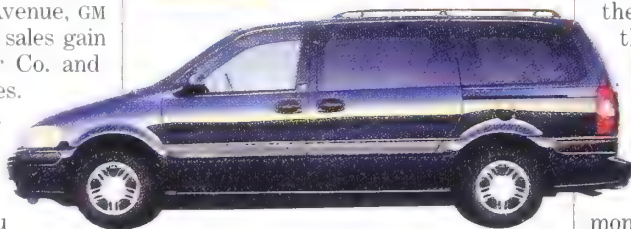
"TEST CASE." The Oklahoma City strike stems largely from the measures that GM has taken to make itself competitive. The new Malibu family sedan and its sister, the Olds Cutlass, have been designed to require 20% less labor to manufacture than their predecessors. GM says the union in Oklahoma City agreed to the elimination of about 900 jobs in order to land the Malibu. But the union denies it ever signed onto such a deal. "Oklahoma City is a test case for whether GM can produce its new models more efficiently," says David Healy, auto analyst with Burnham Securities.

Jacking up productivity is key to GM's

profit turnaround. The auto maker's North American automotive net profit margins have averaged less than 1% over the past three years. So GM wants to reduce head count in its factories by up to 20% over the next 5 to 10 years, analysts say. Assuming GM will make headway on that without provoking long-lasting labor troubles, the analysts have been predicting that GM's earnings will rise 43% this year, to \$5.7 billion.

Whatever happens on the productivity front isn't affecting analysts' enthusiasm about what's happening in the showrooms. GM's minivan sales shot up 61% in March, while the

CHEVY VENTURE UP 63%*



*Sales increase from March 1996 to March 1997

racy new Pontiac Grand Prix surged 88% over its predecessor. "The plan is for our market share to keep rising, so that by the end of the year we're consistently in the mid-32% range," says Michael C. DiGiovanni, executive director of GM's market research.

That would signal a reversal of fortune for GM, which saw its annual U.S. market share hit a postwar low of 31.3% in 1996. "We're officially back in the game now," boasts DiGiovanni. Still, analysts worry that GM has staked much of its growth plan on new car models when buyers are demanding trucks. A redesign of GM's aging full-size pickup truck is still more than a year off, while its full-size sport utility vehicle, the Suburban, is two years away from overhaul.

The biggest problem with GM's revival strategy remains its strained relations with the UAW. Since the union ratified a national

auto pact last fall, Chrysler and Ford have nailed down nearly all their plant contracts. In contrast, about 30 GM factories remain unsigned. Strikes are possible at a pickup truck plant in Pontiac, Mich., a steering-gear plant in Tawas, Mich., and at the Dayton (Ohio) brake factory that closed for three weeks last year, briefly shutting down the maker's entire U.S. operations and costing GM \$900 million.

PONTIAC GRAND PRIX UP 88%



Analysts say assembly-plant stress such as the one in Oklahoma City is less—about \$25 million a week—because they don't trigger other factory shutdowns. Eventually, though, predicts Sean McAlinden, a labor economist at the University of Michigan, "one of these parts plants is going to get loose with a big strike that'll shut GM down."

LOST BUSINESS? GM's solution so far is to defer some of its badly needed productivity gains. For example, it settled a two-week strike at a Fort Wayne (Ind.) pickup truck factory by agreeing to hire 100 workers. GM will still be able to cut, but more slowly: About 750 workers will be eliminated at the plant over the next three years through attrition, McAlinden estimates. The auto maker is expected to settle for a similar arrangement in Oklahoma City. "These are potholes in the road [to recovery]," says McAlinden.

If the Oklahoma City strike lingers and walkouts spread, supplies of new models will dry up. Then, GM risks losing some new customers like Michael J. Hartmann, who bought a Pontiac TransSport minivan last month after driving Chrysler minivans for 11 years. "I never even considered the old long-nose GM minivan," says the 44-year-old Wilmington (Del.) father of three. "Now GM has new products that give me more choice." But that's only if the shiny new vehicles reach dealer lots. For that to happen, GM must find a way to fix its labor problem.

By Keith Naughton, with Bill Vasic, in Detroit

BUICK PARK AVENUE UP 19%*





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UNIONS

BIG LABOR INVITES A FEW FRIENDS OVER

It's enlisting churches and other groups to lean on business

Why do so many union recruitment campaigns fizzle? Labor leaders say one reason is that employers intimidate workers who want to sign up. But management might back off if workers had support from religious and social groups. That's the idea behind a new campaign by AFL-CIO President John J. Sweeney to embarrass companies that resist union drives.

In recent months, the labor federation has linked up with a wide spectrum of groups, from the Sierra Club to the National Association for the Advancement of Colored People. On Apr. 13, leaders from dozens of church, environmental, women's, and religious groups will join labor chieftains for the first test of Sweeney's strategy. They will gather in Watsonville, Calif., for a march aimed at getting strawberry farmers to accept the United Farm Workers (UFW) effort to unionize 20,000 workers. Labor also plans similar campaigns against other employers, such as nursing-home chains and poultry processors.

ACTIVISM. Sweeney's larger goal is to revive the New Deal coalition of labor, liberals, and minorities that served unions so effectively in its heyday. The UFW tried to recapture that spirit on Apr. 4, when Rep. Joseph P. Kennedy II (D-Mass.) visited strawberry workers—echoing the activism of his father, Robert F.

Kennedy, who lent his support to the UFW in the 1960s. "People in these groups are anxious to resume their relationship with labor," says Sweeney.

The AFL-CIO says the strawberry industry exemplifies the way employers thwart workers' desire to join unions.

LINKING ARMS WITH LABOR

The AFL-CIO has forged alliances with more than 80 groups

CLERGY Christian and Jewish leaders issued a "code of ethics" regarding union drives at poultry plants. Catholic bishops and the National Baptist Convention support the strawberry-pickers' drive.

PATIENTS Seniors and religious groups joined the United Food & Commercial Workers to pressure nursing homes.

ENVIRONMENTALISTS The Sierra Club and others are filing suits joining the UFW against growers.

WOMEN AND MINORITIES NOW and the League of United Latin American Citizens are raising money for strawberry pickers.

DATA: BUSINESSWEEK

RALLYING CRY

Beth and Joe Kennedy and the UFW's Rodriguez protest actions by strawberry growers

The UFW won elections in 1994 and 1995, but growers plowed under the crops and laid off workers. Employers say the shutdowns were business decisions unrelated to union drives. The UFW argues that the

actions intimidated pickers who are worried about losing their \$8,500-a-year jobs that they won't vote for the union.

The UFW decided to forgo more elections until it can soften growers' opposition—by building public support. The union has held hundreds of rallies at supermarkets, asking stores to sign pledges supporting their demand for the strawberry industry agree to neutrality pacts. UFW President Arturo Rodriguez hasn't called for a boycott but that's the implied threat. "They're taking the issue to consumers, which we're not happy about," says Philip A. Adrian, marketing manager at Driscoll Strawberry Associates Inc., the largest strawberry supplier. He denies that growers that ship to Driscoll hinder union elections.

The AFL-CIO's link to social groups has been key to the UFW effort. Some 80 groups, from the National Organization for Women to Friends of the Earth, have taken up the cause. As a result, grocery chains have signed UFW neutrality pledges. "We agreed to sign after the union and the Latino community in California asked us to," says Darius Anderson, a spokesman at Los Angeles-based Ralphs Grocery Co.

ETHICS. The same strategy is being used in other industries, too. Last year, the United Food & Commercial Workers formed a coalition of senior citizens and religious groups to monitor Alabama nursing homes. Now, it's putting together a national coalition to monitor the industry across the U.S.

Last year, 40 religious leaders formed the Interfaith Committee for Worker Justice to help poultry workers. This January, the Chicago-based group issued a "code of ethics" that calls on the industry not to threaten or fire union supporters. "The religious community is helping unions because we run soup kitchens and saw that many people who don't have jobs that pay enough," says Kim Bobo, head of the committee.

Labor's goal: to make anti-union actions socially unacceptable, a tall order. But the effort may put more employers in the uncomfortable glare of public.

By Aaron Bernstein in Washington

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COMMENTARY

By Paul Magnusson

BEYOND NAFTA: WHY WASHINGTON MUSTN'T STOP NOW

Caterpillar Inc. sells nearly \$100 million worth of its distinctive yellow bulldozers, excavators, and off-road trucks each year to Chile's mining industry. Most of the heavy machinery is made in the U.S. But because of a growing free-trade movement within Latin America, Caterpillar may shift production—and thousands of jobs—to a plant in Brazil. The reason: Brazil's open-market agreement with Chile means that a Cat tractor built in Brazil comes into Chile duty-free. One from the U.S. is subject to a 11% tariff. And Cat isn't the only U.S. outfit in this situation. General Electric, Coca-Cola, and Eastman Kodak are just a few of the companies that also are being forced to choose between exporting jobs or losing markets.

The blame lies squarely with Washington, which has yet to produce legislation that would authorize new "fast-track" trade talks. The U.S. shepherded the world through the Uruguay Round of trade liberalizations, signed a free-trade pact with Mexico, and promised in 1994 to turn the Western Hemisphere into a tariff-free zone by 2005. But lately, the Clinton Administration and Congress have taken a breather, mainly because of domestic political considerations.

LOST SALES. Meanwhile, Asian, European, and Latin American nations have moved ahead, fashioning free-trade zones among themselves. Chile, for example, has reached zero-tariff deals with Canada, Mexico, and the Mercosur trade bloc that includes Brazil, Argentina, Paraguay, and Uruguay. One result: A Chilean telephone company recently passed over three U.S.-based manufacturers rather than pay an 11% tariff on U.S. telecom goods. Overall, says the U.S.

Chamber of Commerce, the loss of U.S. exports to Chile is \$480 million a year and growing.

The White House is belatedly acknowledging that U.S. exporters are missing out. On Apr. 7, Commerce Secretary William M. Daley announced that his first trade mission will take him to Brazil, Argentina, and Chile. It's a good start, but Daley will be flying in the jet exhaust of delegations from Canada, France, Germany, Britain, Japan, and South Korea. Meanwhile, the European Union has broached the idea of an EU-Mercosur free-trade zone.

Why has the Administration been so slow to move? It can't decide how to handle issues of labor rights and the environment in fast-track trade legislation—longtime Democratic concerns. Well, it should simply negotiate side deals on such issues. That's the method Clinton used in negotiat-

ing the 1993 North American Free Trade Agreement.

There's also pressure from critics who point out that trade deficits with Mexico and Canada have ballooned since NAFTA. But multilateral agreements with Latin American nations

are not likely to produce such a surge. U.S. tariffs now average around 3%, while South American tariffs are still about 12%. The U.S. can't lose by equalizing those rates.

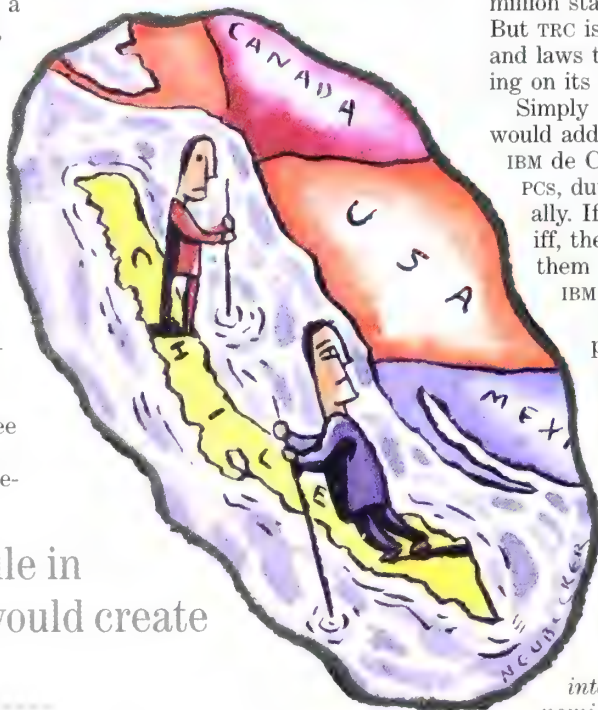
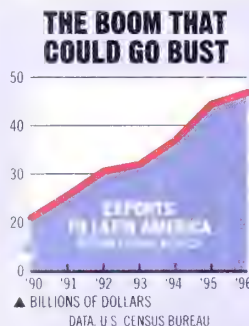
NO CONTEST. Meanwhile, U.S. exporters are losing sales because of tariffs on U.S. goods. Take Quaker Fabric in Fall

River, Mass. Its exports of textiles to Canada and Mexico have taken off since NAFTA passed. But Quaker can't compete with Brazilian manufacturers selling duty-free to Chile and Argentina. Then there's TRC Cos. in Windsor, Conn., which sees a huge market in Chile for its environmental technology. It has engineered a \$25 million state-of-the-art landfill there. But TRC is hobbled by Chilean tariffs and laws that require 20% withholding on its fees.

Simply extending NAFTA to Chile would add U.S. jobs. For example, IBM de Chile imports \$35 million in PCs, duty-free, from Mexico annually. If it weren't for the 11% tariff, the company would bring them in from the U.S., says an IBM de Chile official.

As the world's largest exporter, the U.S. can't afford to sit on the sidelines in the free-trade game. And if Washington can't pass trade legislation in the sixth year of a recovery with low unemployment, when can it? The Clinton Administration should wait no longer to introduce a fast-track bill.

Paul Magnusson covers international trade and economics in Washington.



Simply including Chile in the free-trade pact would create new jobs in the U.S.



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EDITED BY KELLEY HOLLAND

A NEW HOME FOR TAMBRANDS

AFTER YEARS OF ATTEMPTS to reverse a slide, Tambrands has found a buyer. The company, which saw earnings drop 12% to \$82.8 million on revenues of \$662 million in 1996, has been losing a price war to rivals such as Playtex and Kimberly-Clark. In February, CEO Edward Fogarty approached Procter & Gamble about a buyout, and the two announced a \$1.85 billion deal on Apr. 9. The move puts Procter back in the tampon business for the first time since its Rely brand was pulled in 1980 after two dozen women who used tampons died from toxic shock syndrome. Procter plans to sell Tampax as a complement to

its existing feminine-hygiene products, particularly in Asia and Latin America.

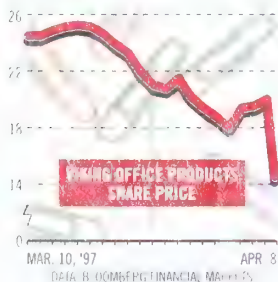
QUALCOMM SPARS WITH MOTOROLA

QUALCOMM HAS ITS SHARE OF headaches, and it can trace them to one source: Motorola. In February, Motorola sued Qualcomm, claiming it had copied Motorola's StarTac handsets. Then, on Apr. 8, Motorola said it will no longer use Qualcomm chips for its digital wireless phones. But on Apr. 7, Qualcomm said it had won a temporary restraining order barring Motorola from saying Qualcomm "in any way unlawfully relied on Motorola" technology for its digital phones. A San Diego court will rule Apr. 17 on making the order permanent.

CLOSING BELL

PAPER CUTS

Are Viking Office Products' earnings headed for the shredder? After years of growth, the company said on Apr. 8 that earnings for the quarter ended Mar. 31 would be well below expectations. Analysts had predicted a 30% jump, but Viking figures just 15%. What's slowing growth? Volatile paper prices, for one thing. And overseas expansion has been hurt by a strong dollar and weak European economies. Result: Viking shares, as high as 32 late in 1996, plunged more than 5 points on Apr. 8, to 14%.



LOWERING THE MERGER HURDLE

BUSINESS GOT A BREAK FROM federal trustbusters on Apr. 8, when the Federal Trade Commission and the Justice Dept. issued more liberal guidelines for merger reviews. The feds will weigh efficiencies that might result from a merger—not just anti-competitive effects. While the feds have long factored in efficiencies, the new rules give business needed guidance on the types of efficiencies that matter most to regulators. The most desirable: streamlining that enhances the new company's ability to compete, resulting in lower prices and better products and services.

AN OVERHAUL AT DOW JONES

DOW JONES HAS SAID it will spend \$650 million to revamp Dow Jones Markets, its financial data delivery service for-



HEADLINER: DOUGLAS ENGELBART

THE MAN BEHIND THE MOUSE

Of all the pioneers of personal computers and the Web, Douglas Engelbart may be the poorest and least-known. But the man who invented the mouse is finally winning recognition as the 1997 winner of the Lemelson-MIT prize—a \$500,000 jackpot awarded annually to an American inventor.

Engelbart, 72, began his work in 1951. In the 1960s, at Stanford Research Institute, his inventions included on-screen windows with menus, groupware, and hypertext. He came up with the mouse in 1963,

carving the first one from wood. He got no royalty though, because research then assigned patents to their employers.

Engelbart says his big frustration is that his inventions have never fulfilled his dream: having computers help solve society's problems. He still promotes his ideals through the Bootstrap Institute, a think tank he founded in 1989. Comparing the challenges ahead, he warns, "everything in the past is peanuts."

By Otis Po



merly known as Telerate. On Apr. 8, it revealed just how it plans to do that. Through a broad alliance with Microsoft, Dow Jones will retool the service to deliver information over the Internet, using Microsoft software. That means traders will no longer need a separate box on their desks to see Telerate financial information. The overhaul is expected to be complete by 2000.

RALPH LAUREN: A NATTY OFFERING?

RALPH LAUREN HAS A NEW spring line: public shares. On Apr. 8, Lauren filed with the SEC to raise up to \$600 million in an initial public offering for Polo Ralph

Lauren. With the company producing solid earnings of \$909 million in net sales in 1996, "I think it's going to be the most enduringly successful fashion apparel you've seen in many years," says Kurt Barnard, *Barnard's Retail Market Report*. But that isn't saying much. Most of the recent fashion IPOs—from DKNY to Mossimo to Guess—have lost at least half their value since they first traded.

ET CETERA...

- Allegheny Power is buying DGE for \$4.2 billion in stock and assumed debt.
- General Electric and DuPont Chemical resolved their trade-secrets dispute.
- Hoechst's Roussel-Uclaf unit is dropping products of the abortion pill RU-486.
- General Re is repurchasing as much as \$500 million of common stock.

POLO PLAY: Ralph Lauren's brand stars in an IPO

EDITED BY OWEN ULLMANN

BANKING REFORM BACK ON THE BACK BURNER

When federal regulators allowed banks to acquire big brokerages starting this spring, it looked as if a Depression-era law limiting bank activities was in its throes. Exhibit A: Bankers Trust New York Corp.'s bid for Alex. Brown & Sons Inc. on Apr. 7. The fatal blow to the Glass-Steagall Act was expected later this year with a push by the Clinton Administration to eliminate the last curbs on bank ownership so that in time, say, Microsoft could acquire America or Chase Manhattan could buy Chrysler.

But the Administration is suddenly backing away from bold plans because of fierce opposition on Capitol Hill. As a result, the Clintonites are expected only to expand limits on mergers among financial institutions and prohibit limited entry for other companies into service banking.

What happened? Banks, which have been lobbying for decades for repeal of Glass-Steagall, realize they have the best of all worlds. Friendly regulators, such as Comptroller of the Currency Eugene A. Ludwig and Federal Reserve Chairman Alan Greenspan, are giving them a broader entrée into other fields while insurers, brokerages, and nonfinancial companies are still largely barred from banking. Alex. Brown, for example, couldn't acquire a brokerage. That's why, chortles one lobbyist, "there aren't a lot of banks now dying for legislation."

RISKY? Such sentiment is one reason another champion of banking reform—Senate Banking Committee Chairman Alfonse M. D'Amato (R-N.Y.)—fears the campaign to repeal Glass-Steagall is losing steam. D'Amato has introduced a bill similar to the Administration's expected proposal that would let banks buy—or be bought by—financial and nonfinancial companies. But Hill sources say he recently told Treasury Secretary Robert E. Rubin that there was scant support in the Senate for such sweeping changes.



D'AMATO: Losing supporters?

The Administration hopes the Alex. Brown buyout will highlight the banks' current advantage. The Bankers Trust merger "emphasizes the need for financial modernization to create a two-way street," says Treasury Dept. Under Secretary John D. Hawke Jr. Beyond the fairness issue, the Clintonites also believe the reforms will lead to more competition.

But many in Congress fear a wide-open banking system is too great a risk for the economy and government-backed deposit-insurance funds. Says Senator Paul S. Sarbanes (D-Md.),

ranking Democrat on the Banking Committee: "I feel very strongly that the line between commerce and banking ought not to be bridged." Similar concerns come from House Banking Committee Chairman James A. Leach (R-Iowa).

Treasury officials hint they will address these concerns by limiting the size of acquisitions. One possibility is to mirror a bill by House Banking subcommittee Chairman Marge Roukema (R-N.J.) to let banks conduct up to 25% of their "business" in nonfinancial activities. Leach argues that 25% of assets is too high—it could let Chase Manhattan, the largest bank, buy all but six of the nation's biggest companies.

With the Administration planning to unveil its revised proposal by May, bank lobbyists are betting the Clintonites can't get even a watered-down bill through Congress. After all, Rubin seems more interested in talks with lawmakers to balance the budget. And Ludwig, an outspoken reform advocate, has been keeping a low profile since the recent disclosure that he attended a 1996 White House coffee with bank chiefs, many of whom were hit up for Democratic Party campaign donations. Although Treasury officials insist they remain optimistic about the chances for some reform, history is on the side of the status quo—and for the 105th Congress, history may well repeat itself.

By Dean Foust

CAPITAL WRAPUP

LOCK FOR LAUCH

Freshman Senator Lauch Faircloth (N.C.) is moving up the list of endangered GOP pols in 1998 because of a backlash against his Whitewater attacks on Hillary Clinton. Only 46% of Tar Heel voters approved of the conservative in a Mason-Dixon poll last fall. State Dems hope Charles A. Sanders, retired CEO of Glaxo's U.S. unit, will challenge Faircloth. Sanders is a moderate with deep pockets and high name recognition from a previous Senate run. One sign

Fairecloth is worried: He's tapping big-name Republicans to host state fund-raisers for him.

FREE... FOR A FEE?

► Although the Federal Communications Commission has agreed to lend broadcasters a second TV channel for free, the industry shouldn't celebrate. Senate Commerce Committee Chairman John McCain (R-Ariz.) is drafting a bill that may include a leasing fee for use of any free spectrum. Budget-balancing fever makes the idea appealing.

UNSUPER TUESDAY

► The "Super Tuesday" primary—created in 1988 to enhance southern and conservative clout in Presidential nominations—may be crumbling. The Texas legislature is likely to pass a bill pulling out of the March mega-primary and setting a later race. Why? Super Tuesday didn't boost the region's influence. But the Texas bill may be vetoed by Republican Governor George W. Bush. A possible candidate in 2000, he'd like an early win in his delegate-rich home state.

SAUDI ARABIA

ARABIAN KNIGHT?

Saudi investor Alwaleed may rescue Apple—his way

The scene in the Saudi desert is almost Biblical. Under a crescent moon, 40 or so robed Bedouin sit on carpets around a huge log fire, sipping tea or cardamon-flavored coffee. Nearby, a camel is being milked in the dark. At 3 a.m., the desert is silent.

Well, almost silent. This, after all, is the weekend encampment of one of the world's wealthiest and most powerful investors, Prince Alwaleed bin Talal bin Abdulaziz Al Saud. As huge TV monitors erected on the sand drone out Wall Street's closing prices eight time zones away, Alwaleed is on the phone with his lawyers in Washington, ironing out a Securities & Exchange Commission filing for the 5% stake in Apple Computer Inc. he recently picked up.

Apple could be a turning point for Alwaleed. It is the first-ever sortie into the Wild West of technology investments for the savvy 41-year-old Saudi prince, whose \$11.7 billion portfolio (table) runs from banking and hotels to real estate and entertainment. Alwaleed could also bring about a turning point for Apple: The prince has made it known that if CEO Gilbert F. Amelio can't turn around the embattled computer maker, in which Alwaleed has bought \$115 million worth of shares, then Lawrence J. Ellison's Oracle Corp.—or another group—will have to do the job.

WAR CHEST. If he joined forces with Ellison, it would mark the first time the prince has ever gone against existing management in a company he invests in. "The important thing is to get the share price back," says the prince, who thinks the stock, now trading around \$19, could go as high as \$70 or \$80.

Alwaleed certainly has the clout to shake up markets: a war chest of \$2 billion in cold cash, held in short-term U.S. dollar deposits at banks around the world. Earnings from investments this year alone will yield around \$460 million. "He's far and away one of the



most liquid players in the world," says Michael Jensen, corporate finance head at Citibank Private Bank in Geneva.

Now that Wall Street's record-breaking rally is cooling, Alwaleed calls that cash the "ultimate weapon" in his quest for value. With his "very optimistic" outlook on the U.S. economy (page 52), he is targeting about a dozen American public companies, as well as industrial combines in Germany and vast real estate ventures in the Middle East. There's just one restriction: Alwaleed

will not buy more than a 9.9% stake in any listed U.S. company because of stringent SEC disclosure requirements.

A speedy—and contrarian—investment style has been Alwaleed's trademark ever since he made his first splash in international markets in 1991. For the stake he took in ailing Citicorp a year to his subsequent interests in S. Fifth Avenue, Euro Disney, London's Canary Wharf, and a far-flung empire of luxury hotel chains, the prince has followed a formula. He consistently tar-

The prince has always been a passive investor. But this time

ed outfits with global brand names, management, and battered values. "ok," says Alwaleed in the fluent h he perfected at California's Men- leage and Syracuse University in 70s, "we lifted every guy off his [Citicorp Chairman John S.] Reed, y Wharf founder Paul] Reichmann, Seasons Hotels CEO Isadore] Even [Silvio Berlusconi," refer- o the Italian media tycoon who f a portion of his television inter- Alwaleed and others in 1995. t philosophy applies not only to but also to another big-name ny Alwaleed would like to res-

fellow Saudi and longtime business ad- viser, started collecting dozens of tech- nology company analyses and reading background material, such as Intel CEO Andrew S. Grove's best-seller, *Only the Paranoid Survive*. By late last year, Al- waleed and Al-Hejailan had homed in on seven or eight leading companies, in-



RIDING HIGH:
ALWALEED
BELIEVES IN
QUICKLY BUYING
BIG STAKES OF
EMBATTLLED
COMPANIES LIKE
TWA AND APPLE

cisco to see Oracle's Ellison. During the late-night meeting at Ellison's San Fran- cisco apartment, the two talked about Netscape, Microsoft, and the future of the Internet. By early March, back in Riyadh, Alwaleed began quietly picking up Apple shares. When Ellison person- ally telephoned Saudi Arabia later in the

month to find out whether Alwaleed would be inter- ested in joining forces for a run on Apple—unaware that the prince was already buying—the call was referred to Alwaleed's lawyers, for fear of trans- gressing any inside infor- mation regulations.

Apple may or may not work out—but it won't be because Alwaleed hasn't done his homework. So far, the prince has avoided get- ting burned, in part thanks to expert advice and in part because he shuns the trophy investments that

PRINCELY POSSESSIONS

HOLDINGS* VALUE
(MILLIONS OF DOLLARS)

BANKS, COMPANIES

CITICORP	\$4,600
APPLE COMPUTER	121
TWA	21
MEDIASET	136
NORWEGIAN CRUISE LINE	21
EURO DISNEY (PARIS)	500
UNITED SAUDI COMM. BANK	335
SAKS FIFTH AVENUE	136

HOTELS, REAL ESTATE

FOUR SEASONS (VARIOUS)	275
GEORGE V (PARIS)	180
PLAZA (NEW YORK)	160
COPLEY PLAZA (BOSTON)	15
FAIRMONT HOTELS	130
CANARY WHARF (LONDON)	130
OTHER REAL ESTATE	1,500

OTHER ASSETS

AIRPLANES, YACHT, PALACES	250
EQUITIES, PRIVATE PLACEMENTS	500
CASH AND OTHER	2,760
TOTAL	11,770

* Many are minority stakes DATA: BUSINESS WEEK



cluding Oracle, Novell, Netscape Communica- tions, and Apple.

That's when Al- waleed turned to Citibank. As the bank's largest shareholder—and one of the biggest single clients of Citi's growing Geneva-based Private Bank—Al- waleed gets special at- tention. Two key execs at Citi's Geneva office, Jensen and relationship manager Cedric Grant, are on call 24 hours a day. Says Jensen: "We'd rather have him come to us at 2 a.m. on Sunday morning than have him go to J.P. Morgan, say, or Deutsche Bank."

Citibank brought in Morgan Stanley & Co. for more detailed analyses in the electronics sector. By De- cember, when Alwaleed was on a 10-day tour to look at U.S. real estate, the prince met with Morgan Stanley's Menlo Park (Calif.) Managing Director D. Rex Golding for a lengthy presentation.

But Alwaleed was also doing field re- search on his own. Winding up a series of meetings with Walt Disney's Michael D. Eisner, Travelers Group CEO Sanford I. Weill, and Allen & Co.'s Herbert A. Allen, Alwaleed headed for San Fran-

have waylaid other tycoons. After pre- liminary talks recently between Al-He- jailan and Rupert Murdoch, Alwaleed nixed the idea of getting involved in News Corp., saying the company is "too political." Similarly, the prince mounted a secretive plan last year to take over MGM in a bid with the studio's manage- ment—but refused to match the rich \$1.4 billion offered by Kirk Kerkorian. Troubled Italian computer group Olivetti was another concern that got the thumbs down from Alwaleed after a careful look, as was New York-based Avon Products Inc.

A SAUDI SAKS. On Wall Street, Al- waleed must compete with the pros. But in the Middle East, as a leading member of Saudi Arabia's ruling Alsaud clan, he has unbeatable entrée. In Cairo, where he has two major real estate proj- ects, Alwaleed is treated like a head of state. The same is true in Lebanon, whose first Prime Minister, Riad Al- Solh, was Alwaleed's maternal grandfa- ther. The prince, who has stakes in two Lebanese television stations and a local investment bank, is negotiating with Prime Minister Rafik Hariri over two multimillion-dollar Four Seasons hotels.

Those hotel projects are part of a \$1 billion program to put up Four Seasons hotels in 10 to 12 cities in the Middle East, an area with few high-quality hot- els and one that Toronto-based Four Seasons has neglected until now. Al- waleed finds local partners to join him as minority investors and secures a

ss-plagued Trans World Airlines twaleed in March plunked down lliion for a 5% stake in the airline. rince believes that new manage- nder CEO Gerald Gitner can save rline with more fuel-efficient and cost controls. And he is pre- o inject more capital and increase ke, if necessary.

aleed never invests on a whim. April investment in Apple was a point. Starting early last year, ed and Mustafa Al-Hejailan, a

ight enlist an ally like Oracle to turn Apple around

management contract for Four Seasons. The Canadian company, 26% held by Alwaleed, is thrilled to have the prince own its real estate, since hotel groups are heavily taxed on property they own.

Nor is Alwaleed neglecting his home market in Saudi Arabia. With a portfolio that already includes the nation's largest supermarket chain, two banks, and various industrial companies, the prince is getting set to start construction in September on the Kingdom Trade Center.

At 300 meters, the \$500 million futuristic office building will be the tallest in the Middle East, housing a Four Seasons hotel and a three-story Saks Fifth Avenue, the retailer's first international outpost. It will resemble other Saks stores except in one respect: Because Saudi society frowns on mixing of the sexes, one floor will be for women only. By way of market research, Alwaleed's aides interviewed hundreds of Saudi women.

Given Alwaleed's high profile in Saudi

Arabia, it's hard to avoid speculation on a future political role. But Alwaleed insists that business, not politics, is his game. The way he sees it, he has accomplished about 25% of what he wants to do in business. He also predicts that he'll double his fortune in the next few years. "With everything in my hands, I'd say we're just getting started," he says. And with \$2 billion in cash, possibilities are just about endless.

By John Rossant in Riyadh

'I WANTED TO BE IN TECHNOLOGY'

During a visit with Saudi Arabia's Prince Alwaleed in Riyadh, Rome Bureau Chief John Rossant chatted with the prince about the stock market and other matters.

Q: When did you get interested in tech stocks?

A: One year ago. I was looking for new opportunities and started looking at airlines and technology simultaneously. I wanted to be in technology more because it's the future. We looked at a lot of companies, screening more than 20. We ended up with 10. From the 10 we short-listed four, and from the four we chose Apple Computer.

Q: Will you get more involved in the management of Apple?

A: [CEO] Gilbert Amelio extended an invitation to me to go to Apple, to be introduced to management and hear their objectives and see what they're doing. I'll try to arrange it in the next couple of months. He's saying publicly that recovery is only two, three, [or] four quarters away. But he has to assure me privately that's the case. Apple has to focus on areas it is strong in. Their biggest problem is that they expanded too much and are fighting on too many fronts. They've got to focus and cut costs.

Q: Why did you buy into TWA?

A: I talked to CEO Gerald Gitner for the second time since buying shares. I was impressed. I bought after the bad news [of the fatal crash of Flight

800]. The price was low. TWA is something that could be repaired, and my conversation with Gitner confirmed that. Until now, TWA has had a burden of a high cost of fuel because of their old fleet of 747s and L-1011 TriStars. Now, all the TriStars have been sold, and by the end of this year, all the 747s will be



ALWALEED: Bullish on the U.S. and Middle East peace

phased out. All the planes will be 757s and 767s—all new. That's a big plus. TWA is going to be a toughie, but it's very much doable.

Q: Are you still enthusiastic about Citicorp?

A: I'm very bullish. It's a growth company, a growth bank. Many people say, "if U.S. interest rates go up, that will devastate the company." But more than 50% of their income is coming from emerging markets. It's not based on the local economy of New York or Washington. It's a global bank that depends on the economies of the entire world, from China to Mexico.

Q: What's your outlook for the U.S.

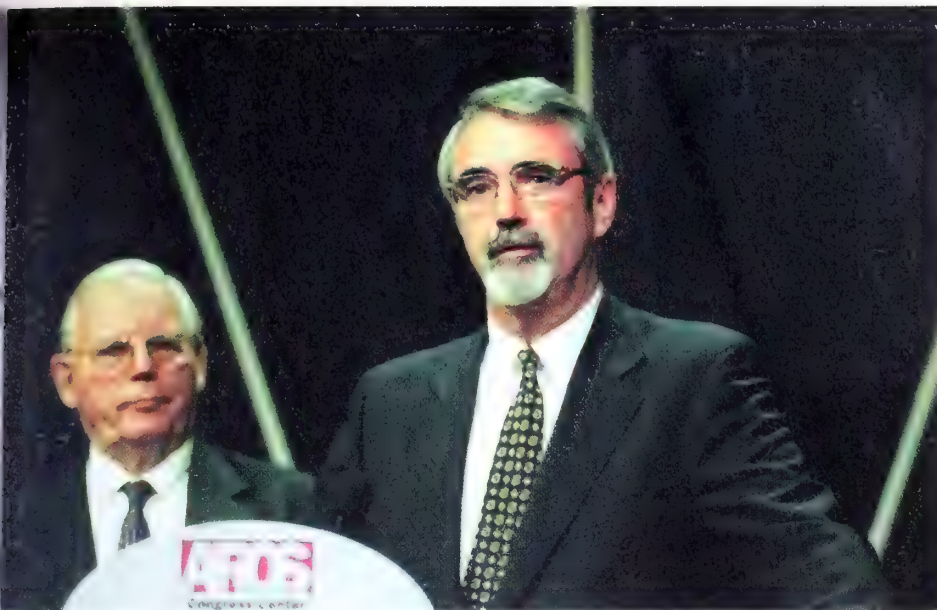
economy in the medium term?

A: I'm very optimistic. You rarely have the U.S. in such an enviable position whereby you have good growth, low inflation, and almost full employment. The Fed's [Mar. 25] move was preemptive, and I admire it. You should not wait until the last moment and then act when inflation

is across the street. I think there's a price to pay for that—the 8% correction we're seeing in the stock market. But I am optimistic about the U.S. economy. The budget deficit is almost under control. And the change in the relationship between the U.S. and the ex-Soviet Union means that defense outlays can be channeled to other sectors, which can boost the U.S. economy even further. If the Fed and the U.S. government act steadily, it can go on like this another several years.

Q: What is your investment strategy for the Middle East?

A: I would not say I'm disappointed because the peace process is not moving the way it should be. I'm still optimistic. The trend is toward peaceful resolution of all the problems between the Israelis and the Syrians, Lebanese, and the Palestinians. Take Jordan, Syria, and Lebanon. No investor wanted to go into these countries in the past 10 years because of the ups and downs of peace. But there is a peaceful trend in the Middle East, there will be no wars from now on—maybe some hiccups—and because of that, I'm going to be invested in Lebanon, Syria, and Jordan.



NEW FACE: Wallenberg and his successor, Barnevik

EDEN

THE WALLENBERGS HARNESS A DYNAMO

Does Barnevik's appointment signal a shakeup in the empire?

Peter Wallenberg, Sweden's most powerful industrialist, sometimes comes across as a rumpled, bumbling figure, but he has proved a shrewd steward of his family's business empire. Last month, he took one of his boldest moves yet by announcing that Sweden's unknown chief executive, Percy Barnevik, will succeed him on Apr. 14 as chairman of Investor, the family company that holds major stakes in companies worth close to \$100 billion.

Turning over the most prestigious job in Swedish business to a non-family member was probably a tough decision for Wallenberg, 70. But Wallenberg thinks Investor has to prospect opportunities outside the small Swedish market in order to thrive in the next century. The 56-year-old Barnevik, who has gained a stellar international reputation at ABB Asea Brown Boveri Ltd., seemed the best choice to preside over such a push.

There is no one better than Percy to be instrumental in that, because of his tremendous international network," says Jacob Dahlbäck, Investor's president. Barnevik's appointment is part of what could be a major shakeup in the Wallenberg

empire. While Dahlbäck, 49, says he will remain as day-to-day manager of Investor for at least a year, he is shifting some of his energy to struggling S.E. Banken. The bank, Sweden's third largest, is badly lagging on the retail side. Dahlbäck is expected to become deputy chairman and act as a mentor to Peter Wallenberg's son, Jacob, 41, who will soon become the bank's chief executive. The Wallenbergs are increasing their stake in the bank and may turn it into an asset management vehicle. The new team may also revive merger talks with Sweden's No. 2 bank, Nordbanken.

When Dahlbäck does eventually leave Investor, he will likely be succeeded by Jacob's cousin, Marcus. "The boys," as the two cousins are known, are supposed to eventually run the empire between them. But overshadowed by Peter Wallenberg and press-shy, they have been slow to emerge into the limelight. Some sources say they seem destined to

MISSIONARY ZEAL Barnevik appears to be the right choice to lead Investor's search for opportunities outside the small Swedish market

function more as owners than hands-on executives.

Investor was on the move even before the recent announcements. Last year, through an affiliate, it completed the acquisition of Gambro, a world-class Swedish kidney dialysis specialist, for \$1.3 billion. It has been staffing up investment offices in New York, London, and Hong Kong to scout for opportunities. So far, Investor has plunked down only about \$100 million into U.S. high-tech ventures, but with Barnevik on board, the pace is likely to accelerate—though not recklessly. Investor has

about \$1.3 billion in cash to put to work from its flotation of truckmaker Scania last year.

THORNY ISSUE. One big question is how Barnevik, who declined to be interviewed, will fit into Investor's cozy culture. He could be a thorn in the side of the young Wallenbergs if they prove to be weak managers. He made his reputation through the 1987 megamerger of Sweden's Asea with the Swiss-German BBC Brown Boveri Ltd. and the brutal restructuring that followed. Investor operates quietly and for years has kept alive such marginal players as the Saab aircraft and car operations. Nevertheless, it has been bringing in annual returns in the 20% range, thanks to strong performances by the likes of pharmaceuticals maker Astra and telecom giant Ericsson.

It seems probable that Barnevik will live in London and leave detailed management to others, but outside investors hope he will nevertheless crack the whip on Wallenberg executives and try to cut Investor's dependence on cyclical, low-growth operations such as Saab autos, appliance maker Electrolux, and Stora, a forest-products company. There is also a strong argument that drug-maker Astra, though a stellar performer, is too small to make it in the long run and should be merged. In five years, Investor "is not going to be in the auto business and not as involved in forest-products and white goods," predicts Rob L. Friedman, senior vice-president of Short Hills, N.J.-based Franklin Mutual Advisers, which owns about 7% of Investor. That would probably be Barnevik's inclination and with Peter Wallenberg's exit it may very well happen.

By Stanley Reed in London, with Ariane Sains in Stockholm

CHINA

'GRASP THE BIG, RELEASE THE SMALL'

Can Jiang reform China's state-owned industries?

Chinese state enterprises produce items no one wants. And managers rarely suffer the consequences. But across the country, that's about to change. Cities such as Shanghai and Guangzhou are key testing grounds for what is shaping up as one of the Chinese leadership's biggest assaults yet on the problems of the woebegone state sector. Overall losses last year increased by 38%. So since the February death of Deng Xiaoping, President Jiang Zemin has made state-enterprise reform a top priority as he bids to consolidate his power (table).

Jiang's campaign is likely to fall far short of mass privatization, a step that might make economic sense but would spell political suicide. For example, the latest reforms will leave the 1,000 largest state enterprises under Beijing's control. That said, cities are experimenting with ways to shake up management, close the biggest money-losers, retrain laid-off workers, and reduce the social-welfare burdens carried by government companies. In many cases, small factories are being sold to foreigners. "The central government is clearly aware that the problem cannot be bypassed," says Weijian Shan, a managing director of J. P. Morgan (Hong Kong) Ltd.

The government, after years of dragging its feet, is willing to take all this action because the Chinese economy is increasingly stable, many analysts believe. In 1994, the economy overheated as inflation skyrocketed to 21%. But last year, the consumer price index rose a modest 8.3%, and it is likely to rise 7% for the next two years, predicts Salomon Brothers Inc. economist Kevin Chan. That's largely the result of tight credit controls that have been in place for three years, forcing discipline on state companies. If Beijing can sustain healthy but stable growth, absorbing laid-off workers will be easier.

SINK OR SWIM. Another reason may lie in politics. With Deng gone, there is pressure on Jiang to distinguish himself as the new top leader. There is widespread agreement on the need to change the state-owned economy. And with a key National Party Congress

coming up this fall, says a Beijing economist, "this is Jiang's chance."

A pillar of Jiang's plan is to let small and midsize state companies sink or swim, while focusing on turning around the largest enterprises involved in everything from textiles to heavy machinery and metallurgy. As Jiang says: "Grasp the big, release the small." Sichuan province hopes to privatize all small and midsize enterprises owned by county governments by next year. Beijing is budgeting \$3.7 billion to write off bad debts of companies that are taken over or go bankrupt.

Many local governments also are looking at new ways to provide for worker welfare. Rather than have companies pay medical, retirement, and housing expenses as they occur, they are being urged to contribute to provident funds managed by cities. In Guangzhou, for example, officials are using these funds to provide mortgages to enable citizens to buy their apartments from employers. Some cities are tapping provident funds to set up health-

care, pension, and savings programs.

The leadership also is trying out management reforms. Shanghai is setting up a "human resource center" that will monitor the performance of senior executives at local state enterprises. Tenured managers will get training and help in landing new jobs if they want to move to other enterprises, while the center will keep tabs on poor managers and may even recommend their ouster.

Many of the boldest reforms are advancing in the south, where state enterprises aren't as dominant. The real test will come in the industrial north, China's Rust Belt. The other concern is the scale of the effort. Sectors such as telecommunications, high-tech electronics, and banking are likely to remain firmly under state control for many years. As a result, many analysts believe real reform will be elusive. While few expect Jiang to evolve into a free-market purist, his changes are bound to make the economy less dependent on state enterprises. It may not be the ideal plan. But in China as elsewhere, politics is the art of the possible.

By Joyce Barnathan and Dieter Roberts in Beijing



PRIORITY: Jiang sees a consensus for reform

CHINA'S GAME PLAN

- Save China's 1,000 largest state enterprises while letting smaller, money-losing companies be merged, taken over by private investors, or dissolved
- Monitor the performance of state-enterprise managers through outside "human-resource centers"
- Set up a \$3.7 billion war chest to cover bad debts of state enterprises that merge with profitable companies or go bankrupt
- Relieve the social welfare burden of companies by setting up provident funds to pay for health care and pensions and to make mortgages available for workers to buy apartments

DATA: BUSINESS WEEK



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OUR MORE YEARS? KOHLE JUST MIGHT PULL IT OFF

Helmut Kohl looked like political road kill a few weeks ago. But he might now just succeed in becoming Germany's longest-serving Chancellor, beating Otto von Bismarck's near record. On Apr. 3, his 67th birthday, an energized and younger Kohl took time out from his annual spring diet vacation at Austria's tony Bad Hofgastein spa to drop a bombshell: He will run for a fifth four-year term in the general election that must be held by October, 1998.

Kohl's preemptive strike could gain force from a quickening economy. He will deliver sizable chunks of an \$18 billion tax cut before election day. Cheap money and a weak currency could help to accelerate the economy past subpar 1.4% growth last year. Faster growth should reduce unemployment, which peaked at 12.2%, or 4.7 million—the highest since the Nazi era—in February before falling to 11.7% in March.

Finance Minister Theo Waigel, meanwhile, is tackling Kohl's second-biggest political headache. Germany must meet tough goals to participate in the European Monetary Union when it starts on Jan. 1, 1999. Kohl risked having to snuff out Germany's economic recovery by slashing spending to bring its budget deficit down to 3% of gross domestic product, one of EMU's targets.

WARNING. But Waigel signaled on Apr. 6 that Germany was likely to be more flexible about the 3% target than it has previously admitted. Waigel's move is astute diplomacy as well as smart domestic politics. It appeals to European leaders, such as French President Jacques Chirac, who are hard-pressed to meet EMU targets. And while three-quarters of Germans prefer the mark to the planned Euro, a majority believes Kohl can best defend German interests within the EMU. Kohl's candidacy declaration has halted the dangerous drift of his Christian Democratic Union (CDU) party. Policy waffling and backsliding over tax and welfare reforms

sparked a minirevolt in January as several thirtysomething CDU politicians, dubbed "the wild ones," publicly challenged his authority. Now, the CDU is rallying behind him.

But Kohl is still trailing the opposition Social Democratic Party (SPD) in the polls. The latest show the CDU five points behind the SPD. One suggests that if it were to ally with the Greens today, they could together rustle up 52% of the votes and consign Kohl's center-right coalition to history. Besides, Kohl's personal popularity is at a three-year ebb. Indeed, Gerhard Schröder, the SPD Prime Minister of Lower Saxony who attracts centrist voters, has a 12-point lead over



KOHL: Tax cuts may boost his polls

Kohl in the polls. "Voters yearning for a sensible alternative can see that we offer one," says Herta Däumler-Gmelin, deputy leader of the SPD group in the Bundestag.

Despite that yearning, SPD leaders seem unable to capitalize on their lead. Instead of quickly naming its own candidate after Kohl's announcement, the SPD is sticking to its original plans, giving Kohl a year of unopposed campaign exposure. It won't decide between Schröder and party leader Oskar Lafontaine, Prime Minister of the Saarland, until results of Lower Saxony

state elections that Schröder faces are known.

Even the prolonged tax-reform debate is now going Kohl's way. The SPD is near to agreeing to cut top corporate tax rates from 45% to 40% in 1998 and 35% in 1999. Gernot Nerb, an economist at Salomon Brothers Inc. in Frankfurt, says this could spur investment growth by at least 5% to 6% this year, after a flat 1996.

Kohl still faces a raft of problems even if he wins reelection. But the man who reunited Germany in 1990 may still be able to realize his dream of uniting Europe east and west by enlarging NATO and completing monetary union before he leaves office.

By Karen Lowry Miller in Bonn

GLOBAL WRAPUP

PALESTINE ACCOUNT QUESTIONS

Leading members of Prime Minister Benjamin Netanyahu's Likud Party filed in an Apr. 7 bid to get the Israeli Knesset to close a Palestinian National Authority bank account that recently came to light. Israel has paid more than \$150 million in taxes, due the Palestinians under the 1993 Oslo peace accord, into the account at Bank Leumi in Tel Aviv. Likud Knesset member Silvan Shalom, who spearheaded the campaign, claims the account is a Palestinian political slush

fund. Netanyahu may have staved off another damaging blow to the peace process. But he is still facing pressure for better oversight of Palestinian finances. Shalom and others insist the Palestinians should account for use of the funds.

ANOTHER NON FROM FRANCE

► One more big European industrial restructuring is stumbling over French government refusal to surrender control to foreigners. Talks to merge French nuclear-plant manufacturer Framatome and Franco-

British power-generator maker GEC Alsthom stalled on Apr. 4 after George Simpson, CEO of Britain's General Electric Co., insisted GEC needs 50% of the merged company, not just the 40% it and its partner were each offered.

The French government wants to keep 20% of Framatome and control nuclear policy. But as GEC Alsthom is the only interested bidder, Paris may have to bow to Simpson's wishes. That would be sweet revenge: GEC has already been warned off bidding for French defense giant Thomson-CSF.



EXECUTIVE

Tying pay to performance is a great idea. But stock-option deals have compensation out of control

It seems to have worked like a charm. In recent years, as boards shifted the mix of executive pay away from cash and toward stock options, corporate profits and the stock market have vaulted to record levels. It's exactly the win-win situation that pay for performance was expected to bring: more reward for the leaders and better returns for shareholders, who can sleep well knowing that executives feel the same pain they do if their companies underperform.

It's a soothing lullaby, but shareholders are starting to wake up to some sour notes. The explosion of executive pay—propelled by huge option grants, easy performance provisos, and a bull market—has created a windfall for all. Star CEOs are winning big, but so are many second-stringers. Even for the success stories, the CEO's gains often exceed the company's own strong year proportionally. And while the mass embrace of options has helped shareholders, options have hidden costs and are diluting those gains to the tune of tens of millions of dollars.

THE TOP-PAY

		1996 SALARY AND BONUS THOUSANDS OF DOLLARS	LONG-TERM COMPENSATION	TOTAL
1	LAWRENCE COSS GREEN TREE FINANCIAL	\$102,449	none	\$102,449
2	ANDREW GROVE INTEL	3,003	\$94,587	97,590
3	SANFORD WEILL TRAVELERS GROUP	6,330	87,828	94,158
4	THEODORE WAITT GATEWAY 2000	965	80,361	81,326
5	ANTHONY O'REILLY H.J. HEINZ	2,736	61,500	64,236
6	STERLING WILLIAMS STERLING SOFTWARE	1,448	56,801	58,249
7	JOHN REED CITICORP	3,467	40,143	43,610
8	STEPHEN HILBERT CONSECO	13,962	23,450	37,412
9	CASEY COWELL U.S. ROBOTICS	3,430	30,522	33,952
10	JAMES MOFFETT FREEPORT-MCMORAN C&G	6,956	26,776	33,732

... AND TEN

		1996 SALARY AND BONUS THOUSANDS OF DOLLARS	LONG-TERM COMPENSATION	TOTAL
1	SAM WYLY STERLING SOFTWARE	\$1,571	\$68,036	\$69,607
2	FRANK LANZA LOCKHEED MARTIN	1,947	48,918	50,865
3	RICHARD KINDER ENRON	2,458	35,238	37,696
4	JAMES CROWE * WORLDCOM	1,497	34,280	35,777
5	CHARLES WYLY JR. STERLING SOFTWARE	816	33,870	34,686

* FORMER CEO OF MFS COMMUNICATIONS



CEOs GET THE PAY

Special
Report

EXECUTIVES...

	1996 SALARY AND BONUS THOUSANDS OF DOLLARS	LONG-TERM COMPENSATION	TOTAL PAY
CHAMBERS SYSTEMS	\$619	\$32,594	\$33,213
WIGGINS HEALTH PLANS	1,738	27,270	29,008
PFEIFFER COMPUTER	4,250	23,546	27,796
GASE ONLINE	200	27,439	27,639
WELCH ELECTRIC	6,300	21,321	27,621
SCRUSHY SOUTH	11,380	16,197	27,577
SILVERMAN	3,752	19,990	23,742
AUGUSTINE MARTIN	2,781	20,324	23,105
AMERMAN	3,732	18,923	22,655
LEWIS PACIFIC	3,131	18,320	21,452

CEOS

	1996 SALARY AND BONUS THOUSANDS OF DOLLARS	LONG-TERM COMPENSATION	TOTAL PAY
BY SON, LUFKIN, JENRETTE	\$8,773	\$24,220	\$32,992
MYOJIN ON	10,558	20,873	31,431
MARSHALL SYSTEMS	490	27,879	28,369
M RHODES RP	1,300	22,189	23,489
VORD FINANCIAL GROUP	3,040	19,409	22,449

DATA: EXECUCOMP BY STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE MCGRAW-HILL COMPANIES

Few doubt 1996 was a stellar year. The Standard & Poor's 500-stock index rose a stunning 23%. Corporate profits rose, too—an impressive 11%. Who would begrudge U.S. chieftains a healthy raise?

Apparently, no one. But many CEOs took that—and a good deal more. For 1996, CEO pay gains far outstripped the roaring economy or shareholder returns. The average salary and bonus for a chief executive rose a phenomenal 39%, to \$2.3 million. Add to that retirement benefits, incentive plans, and gains from stock options, and the numbers hit the roof. CEOs' average total compensation rose an astounding 54% last year, to \$5,781,300. That largesse came on top of a 30% rise in total pay in 1995—yet it was hardly spread down the line. The average compensation of the top dog was 209 times that of a factory employee, who garnered a tiny 3% raise in 1996. White-collar workers eked out just 3.2%, though many now get options too.

It all adds up to quite a payday—and one that's raising a storm of criticism. "We've got terrible tensions this year" with institutional investors, says Pearl Meyer, president of pay specialist Pearl Meyer & Partners. Even many shareholder advocates who pushed for the move to pay for performance in the early 1990s question whether the approach is working. As once-outsize options packages become the norm, many CEOs are taking the lion's share. Far smaller gains are going to managers and other key employees. The disturbing message: The CEO deserves nearly all the credit for the company's success. Worse, there's

For CEOs,
an average
54% raise.
For factory
workers, 3%

very little downside to many CEO pay deals. Many executives are negotiating big guaranteed payouts in case they stumble. And if the market drops, some pay experts worry that executives will demand—and get—options at lower prices to ensure

that their pay packets remain full.

Special Report

What are the main results of BUSINESS

WEEK's 47th annual Executive Pay Scoreboard? Compiled with Standard & Poor's Compustat, a division of The McGraw-Hill Companies, the survey examines the compensation of the two highest-paid executives at 365 of the country's largest companies. In comparing pay with performance over three years, BUSINESS WEEK found that Microsoft's William H. Gates III and Avon Products' James E. Preston gave investors the best results for their pay (page 61). Consec's Stephen C. Hilbert and America Online's Stephen M. Case were the worst-performing CEOs relative to payouts.

Despite the soaring pay, many experts argue that the system is working better than ever. They see the bull market and healthy corporate sector as proof positive that companies get what they pay for. They argue that as long as CEOs continue to turn in strong results for their shareholders, the absolute level of executive pay is irrelevant. "You can't legislate morality," says James E. McKinney, consultant at pay experts Hirschfeld, Stern, Moyer & Ross Inc. "The U.S. is the most exciting economy the world has ever seen." Adds Charles W. Sweet, president of A. T. Kearney Executive Search: It's simply "the cost of finding brains."

LITTLE-KNOWN LEADER. In many cases last year, those brains cost a lot more. The top ranks were peopled by such corporate standouts as Intel's Andrew S. Grove, who earned \$97.6 million, and Travelers Group's Sanford I. Weill, who made \$94.2 million, most of which remains in Travelers stock that he can't sell until he retires. Heading our list for the second straight year was Lawrence M. Coss, the little-known CEO and chairman of Green

Tree Financial Corp., based in St. Paul, Minn. Thanks to a year deal set in 1991 that paid him 2.5% of pretax income, Coss made \$102.4 million last year—a 56% rise over the \$65.6 million he earned in 1995.

By any standard, Coss's paycheck is huge. And for many investors and pay experts, he remains the poster boy for the idea that is right with pay for performance. Coss himself makes no apologies. "Indeed it is a huge number," he says, "but I'd rather talk about the success of the company." That's easy to do. Between 1991 and 1996, Green Tree's shares had compounded annual returns of 53% as it became the largest lender to the manufactured-home sector. Although two small pension plans recently sued Coss and the board for excessive compensation, most big shareholders appear satisfied. "In no way

would I consider him overpaid," says Thomas Smith, partner at Prescott Investors Inc., who holds 2.7 million shares.

Like Coss, most well-paid execs point to stock-price gains as proof that their pay is richly deserved. Ask Sam Wyly, chairman of Sterling Software Inc., about the fact that his \$439 million compensation produced three of the biggest pay packages in Corporate America last year, and he lets out a belly laugh. "We should," he says, pointing to the company's 673% stock price rise since its 1991 initial public offering. The payouts—which totaled \$69.6 million for Wyly, \$34.7 million for his brother, vice-chairman Charles J. Wyly Jr., and \$58.2 million for CEO Sterling L. Williams—came mostly from option exercises.

Yet if few would dispute the success of such fast-growing companies, investors are increasingly asking how much is enough to get top performance. Again, take Coss. His pay is so gargantuan that it dwarfs his stellar performance. The ratio between his three-year pay and the shareholders' gain puts Coss third on BUSINESS WEEK's list of CEOs who give shareholders the least for their buck. Moreover, the huge award significantly diluted other shareholders' gains: Coss's payouts cut Green Tree's 1996 earnings 16%, to \$308.7 million.

Because he received shares directly, rather than options,

High pay packages may just be "the cost of finding brains"

Pay For Performance: Who Measures Up... And Who Doesn't

To see how pay matches up to performance, BUSINESS WEEK uses two measurement systems. One relates to how good a job the boss did for shareholders. The other compares what the boss made with how well the company did.

EXECUTIVES WHO GAVE SHAREHOLDERS THE MOST FOR THEIR PAY...

1994-96		Total pay* Thousands of dollars	Shareholder return**	Relative index
1	WILLIAM GATES Microsoft	\$1,436	310%	286
2	WARREN BUFFETT Berkshire Hathaway	904	109	231
3	THOMAS GOLISANO Paychex	1,475	238	229
4	MICHAEL DIRCH Tellabs	3,369	537	189
5	RICHARD USSERY Total Systems Service	2,454	315	169

EXECUTIVES WHOSE COMPANIES DID THE BEST RELATIVE TO THEIR PAY...

1994-96		Total pay* Thousands of dollars	Avg. return on equity	Relative index
1	JAMES PRESTON Avon Products	\$7,907	141%	10
2	B. THOMAS GOLISANO Paychex	1,475	28	10
3	WILLIAM GATES Microsoft	1,436	27	9
4	MITCHELL FROMSTEIN Manpower	10,415	32	8
5	C. RUSSELL LUIGS Global Marine	4,851	20	8

...AND THOSE WHO GAVE SHAREHOLDERS THE LEAST

1	STEPHEN HILBERT Consec	165,223	133	1.4
2	SANFORD WEILL Travelers	156,166	146	1.6
3	LAWRENCE COSS Green Tree Financial	197,007	230	1.7
4	ANTHONY O'REILLY H.J. Heinz	68,179	66	2.4
5	JOHN WELCH General Electric	57,292	104	3.6

...AND THOSE WHOSE COMPANIES DID THE WORST

1	STEPHEN CASE America Online	33,460	-413	-22
2	ROBERT PALMER Digital Equipment	3,840	-25	-4
3	ANDREW LUDWICK Bay Networks	1,512	14	-3
4	JAMES ROBBINS Cox Communications	3,991	2	-1
5	JOHN ROACH Tandy	3,967	7	-1

*Salary, bonus, and long-term compensation paid for the entire three-year period **Stock price at the end of 1996, plus dividends reinvested for three years, divided by stock price at the end of 1993

DATA: STANDARD & POOR'S COMPUSTAT

WHICH BOSSES EARNED THEIR PAY, AND WHICH DIDN'T?

Microsoft Corp. Chairman William H. Gates III doesn't fuss about the size of his salary. In fact, he even jokes about lowering it. But as the software giant's largest shareholder, Gates certainly doesn't need a megapay package. His 23.7% stake in Microsoft is worth a colossal \$27.7 billion. Salary or not, he comes out a big winner.

And his shareholders haven't done so badly either. Gates is one of this year's two pay-for-performance winners. A **BUSINESS WEEK** analysis shows that Gates gave shareholders the highest return relative to his pay. And for the second year, James E. Preston, chief executive of Avon Products Inc., delivered the highest return on equity (ROE) relative to his pay (table, page 60).

NETWORK. Gates has driven Microsoft to develop one success after another. Windows 95, along with applications such as Office, lofted sales to \$8.7 billion last year, up from \$5.9 billion in 1995. Gates also engineered a wrenching change last year, making the Net central to all new products. Microsoft's Web browser, Internet Explorer, has now racked up more than a 20% market share. Since 1994, Gates's total pay has been just \$1.4 million, while shareholder returns have jumped 310%.

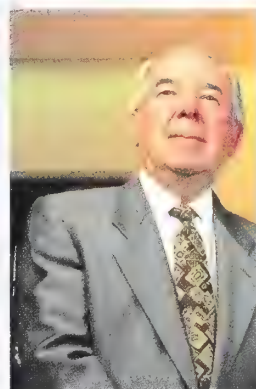
Preston is the CEO whose company performed best relative to his pay. To align his pay with performance,

The Overachievers



GATES

Since 1994, his total pay has been \$1.4 million—while Microsoft shareholders have reaped returns of 310%



PRESTON

Avon had the highest ROE of any company relative to the CEO's pay

Preston froze his \$610,000 salary five years ago and began taking most of his compensation in stock options. Over the past three years, Preston has earned \$8 million. Avon's average ROE is 141%. In part, that reflects Avon's renewed growth, although an aggressive stock-buyback program has also left Avon with a small equity base. This year, Preston's salary will jump to \$1 million. But with \$22 million in options yet unexercised, he insists he's still a big advocate of pay for performance. "I will do well or

not well depending on how the stock does," he says.

On the other side of the ledger, Consec Inc.'s Stephen C. Hilbert gave shareholders the least for the \$165 million he's collected since 1994. Most came from a \$107 million stock-option exercise in 1994 and a \$23 million exercise last year. Since 1994, shareholder return has been 133%. A company spokesman argues it's unfair to compare the value of Hilbert's options with performance over the past three years. He says it should be compared with the 3,100% return created over the 10 years since the first option grant. Adds Hilbert: "I'm certainly not embarrassed about our success or mine personally."

Stephen M. Case, CEO of America Online Inc., provided the worst corporate performance relative to his pay. During the past three years, Case earned \$33.5 million, while the ROE was negative 413%. Most of his gains came from exercising \$27.4 million in options last year. Last summer, the stock was driven down by growing pains and a restructuring to change AOL's controversial accounting practices. CFO Lennert J. Leader says AOL is concentrating on growing its customer base and revenues, as opposed to short-term profits. But as Case struggles to get AOL back in the black, the payoff—for the company, if not for him—appears far away.

By Lori Bongiorno in New York, with bureau reports

The Underperformers



HILBERT

\$165 million since 1994—while Consec stock returned 133%



CASE

He got \$33.5 million, but AOL's stock tanked

"Performance criteria are almost like intellectual Silly Putty," says professor Warren Bennis of USC

Coss's compensation differs from that of most CEOs. But as the sheer number of options has soared, shareholder dilution is proving an unanticipated by-product. Companies use options in part to align executives' interests with shareholders. But they also favor them because—unlike other forms of pay—they never show up on an income statement. Instead, starting this year, companies must footnote them in their annual reports using the Black-Scholes fair value option pricing model.

It takes some digging, but those footnotes provide plenty of surprises. For all the benefits that options create, they're not free. PepsiCo Inc., for example, reported that its option grants would have reduced earnings by \$68 million, or 6% last year, had they been counted as compensation. Medical-equipment maker Guidant Corp.'s earnings after charges would have taken an 11% hit. By putting more potential shares into circulation, options reduce every shareholder's slice of the earnings pie. And because the footnotes include only options granted since 1995, Bear, Stearns & Co. accounting analyst Pat McConnell estimates they understate the impact by at least 50%.

CONCERNED INVESTORS. Companies with broad-based option plans say the dilution is a small cost next to the benefit of motivating employees. But the largest share of those new options goes to the corner office. According to *Executive Compensation Reports*, a Fairfax Station (Va.) newsletter and database, 51% of companies that have reported granting options for 1996 have given 10% or more of them to the CEO. In 1993, only 18% of companies did so.

But that's not the only hidden cost of options. Companies have been buying back shares in record numbers, even as many sell discounted shares back to executives when they cash in their options. With many shares trading near record highs, those companies are paying top dollar to buy back stock—while execs pocket the aftertax difference between the option price and the market price. That often results in large cash outlays, and it also means executives end up with an ever higher percentage of outstanding shares. "Want to talk about the largest social welfare transfer program in the world?" says Patrick S. McGurn, director of

corporate programs at Institutional Shareholder Services Inc., a proxy advisory service

based in Bethesda, Md. "It's from shareholders into the pockets of executives."

So far, investors have been relatively quiet on dilution. But now they're taking notice. Institutional Shareholder Services is recommending "no" votes against at least 20% of new stock-option plans, including those at Starbucks Corp. and Sprint Corp. And the five New York City pension funds will oppose some one-third of plans this year, primarily because of concerns over dilution. Options "do come home to roost," says Jon Lukomnik, New York City Deputy Controller for pensions.

Another unwelcome result of the shift to pay for performance: It's not just the best who are pulling in giant pay. Performance targets are often set so low—or so loosely—that they're virtually meaningless. "Performance criteria are almost like intellectual Silly Putty," says Warren Bennis, Distinguished Professor of Business Administration at the University of Southern California's Marshall School of Business.

According to *Executive Compensation Reports*, of proxy

examined so far this year, only 6.6% of option-granting companies issued a "premium-priced" options—those with prices above market value on the day of issue. And though the number is up from last year's 3.5%, most companies boast that premium-priced options make them out a small portion of the package. Just 2% of PepsiCo CEO Roger Enrico's 1.7 million stock-option awards in 1996 were made at prices above then-current market value, for example. And of last year's record-setting grant of 8 million options to Walt Disney CEO Michael D. Eisner, only 3 million were awarded at above-market prices.

Shareholder advocates say that tougher targets are necessary to keep from rewarding average CEOs who are simply riding a bull market. Nell Minow, a principal in LENS, an activist investor group, argues, for example, that executives should outperform the market or the peer group to receive big packages.

Instead, with grants in the hundreds of thousands of shares now commonplace, managers can earn a big payday even if their stocks rise only slightly. In Eisner's case, if Disney shares rise a tiny \$2 a share annually—a poor performance by Disney standards—the value of his market-priced options would increase \$10 million annually. And there's little real downside. For executives suffer financially if the stock drops. "One of my biggest complaints

there's not much risk" with options, says Anne Yerger, director of research at the Council of Institutional Investors. "In a bull market, most executives are going to get money."

LOSING THE BALANCE? As a result, many execs whose performance trailed their peers' have also benefited. Typical was H.J. Heinz's Anthony F.J. O'Reilly, who made \$62 million last year. His company's stock performance rose just 11%, trailing both the S&P and other food companies. O'Reilly defends his huge option grants as part of a generous incentive scheme. "There can be no more honorable or fair way" to compensate CEOs, O'Reilly argues.

The staggering rise in pay for the good, the bad, and the indifferent has left even some advocates of pay for performance wondering whether the balance between the CEO and the shareholder is tilting the wrong way. "I've been consulting for over 20 years and have seen options accepted carte blanche as a good thing," says George B. Paulin, president of compensation consultancy Frederic W. Cook & Co. "Now, boards and investors are starting to question the structure of option deals."

Options: The Hidden Costs

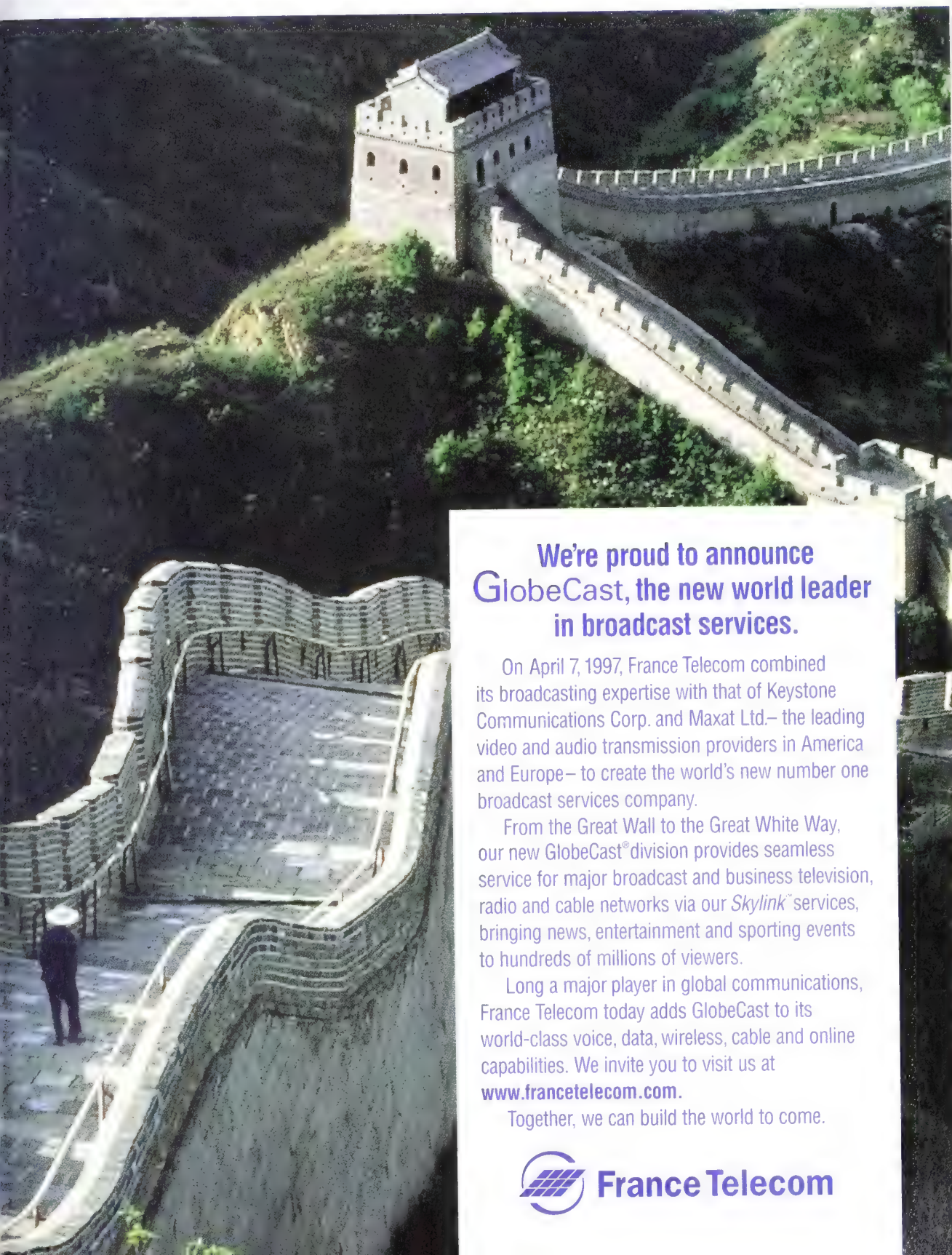
In a footnote in this year's annual reports, companies are required to disclose—for the first time—the cost of options. Although current accounting rules treat options as cost-free, here's what a handful of companies would have to deduct from 1996 earnings if options were accounted for:

	MILLIONS
MCI COMMUNICATIONS	\$97
PEPSICO	68
BRISTOL-MYERS SQUIBB	55
J.P. MORGAN	52
TRAVELERS	51
GILLETTE	47
MORGAN STANLEY	43
RAYTHEON	29
COMPAQ	21
REPUBLIC INDUSTRIES	18
USAIRWAYS	15

DATA: PEARL MEYER & PARTNERS INC.; BEAR, STEARNS & CO.; COMPANY REPORTS; BUSINESS WEEK

Special Report

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are more willing to job-hop, must dole out juicy options packages and guarantees to get the execs they want. It's a seller's market, with CEOs in demand holding most of the cards. "In many cases," says Peter T. Chingos, national practice director of compensation at KPMG Peat Marwick: "You don't have a choice."

And if the recent tremors in the stock market turn into an earthquake? With shareholder returns increasingly the gauge for setting ex-

Special Report

ecutive compensation, the truest test of pay for performance may come in a bear, not a bull, market. Yet few expect CEOs, now accustomed to supercharged awards, to cut back. Instead, experts anticipate demands for lower-priced options or for more cash. "When stock prices go down [CEOs argue], it's purely the vagaries of the market," says Kevin Murphy, a professor of business administration at USC. "But when they go up, it's what they did to create value."

Already, the pressure to reprice has begun. After a difficult few years in the trucking industry, Jerry W. Walton, chief financial officer at J.B. Hunt Transport Services Inc. in Lowell, Ark., says he tried to get the top brass to reprice their options, which have fallen below market value, on condition that they surrender some of the stock. Included: a grant of 2.5 million options for Chairman Wayne Garrison. "Everybody thought it was a good idea to reprice," Walton says with a laugh. "Nobody thought it was a good idea to surrender [the options]."

Fortunes in the Future

These chief executives still have huge rewards to reap from stock options that have yet to be exercised. The top 20 treasure chests:

EXECUTIVE/ COMPANY	VALUE OF NONEXERCISED STOCK OPTIONS* THOUSANDS OF DOLLARS	EXECUTIVE/ COMPANY	VALUE OF NONEXERCISED STOCK OPTIONS* THOUSANDS OF DOLLARS
HENRY SILVERMAN HFS	\$544,284	JOHN WELCH GENERAL ELECTRIC	\$107,31
MICHAEL EISNER WALT DISNEY	364,360	SANFORD WEILL TRAVELERS GROUP	101,54
CHARLES WANG COMPUTER ASSOCIATES	248,928	ECKHARD PFEIFFER COMPAQ COMPUTER	97,38
RICHARD SCRUSHY HEALTHSOUTH	188,044	STEPHEN WIGGINS OXFORD HEALTH PLANS	81,51
STEPHEN HILBERT CONSECO	145,860	LOUIS GERSTNER IBM	81,18
ROBERTO GOIZUETA COCA-COLA	134,059	STEVEN BURD SAFEWAY	80,93
WAYNE CALLOWAY PEPSICO	123,785	LAWRENCE BOSSIDY ALLIEDSIGNAL	79,10
LAWRENCE ELLISON ORACLE	121,178	SCOTT McNEALY SUN MICROSYSTEMS	78,22
STEPHEN CASE AMERICA ONLINE	116,592	CASEY GOWELL U.S. ROBOTICS	72,83
DANIEL TULLY MERRILL LYNCH	111,387	ANDREW GROVE INTEL	72,28

*Based on stock price at end of company's fiscal year

DATA: STANDARD & POOR'S COMPUS

Will executive pay ever descend from the heavens? So who helped push the early-1990s reforms aimed at trimming exorbitant executive pay—and tying it more closely to performance—are cynical. "I wouldn't say the glass is half full; say it's one-millionth full," says Minow. "I do think things have improved. But a lot of the reforms we thought would have opened up with executive pay have been ineffective." For shareholders, 1996 was a good year indeed. But it was a far better year for the boss.

By Jennifer Reingold in New York, with bureau reports

Compensation Scoreboard Glossary

If the system worked perfectly, executive pay would rise when the boss delivered the goods for shareholders. And it would fall when corporate performance declined. But it doesn't always happen that way.

In this Scoreboard, *BUSINESS WEEK*, along with Standard & Poor's Compustat, attempts to measure how closely pay matches performance. The study uses two approaches: It compares an executive's total compensation with

the company's total return to shareholders in stock appreciation and dividends over three years. A second comparison measures pay against corporate profitability for the same period. Three years of data are examined to minimize the impact of single-year windfalls.

The Scoreboard companies boast market values that are among the 500 largest companies measured by market value for which 1996 compensation data

are available. Each company is assigned to one of nine industry groups. Then, each executive's pay, the company's total return to shareholders, and the company's profit record are measured against the others in the group.

Performance ratings are given only when three years of data are available. On a scale of 5, 1 indicates the best performance; 5 is the worst. The top 15% of the sample receives a 1, 25% a 2, 30% a 3, 20% a 4, and 10% a 5.

1994-96 PAY-PERFORMANCE ANALYSIS

PAY VS. SHAREHOLDER'S RETURN

TOTAL COMPENSATION is the sum of an executive's salary, bonus, and long-term compensation for the three years.

VALUE OF \$100 INVESTED is the yearend 1996 value of a \$100 investment in the company made three years earlier, including both share-price appreciation and dividends (reinvested).

RATING shows how an executive stacks up against industry peers, measured in terms of pay relative to total return to shareholders. The rating is based on an index in which the value of the investment at the end of the three-year period is divided by an executive's total pay and then compared with other executives in the same industry group.

PAY VS. CORPORATE PROFIT

ROE is the company's average return on common equity over the three-year period.

CHANGE IN ROE is the improvement or decline in the company's profitability over the 1994-96 period, expressed in terms of a percentage.

RATING shows how an executive compares with industry peers in pay for company profitability. The rating is based on an index that provides equal weight to the company's overall ROE as well as its improvement or decline during the past three years. Both these measurements are divided by an executive's total pay and then compared with others in the same industry grouping.

Footnotes: †Indicates executive retired in 1996-97 ‡May exclude option gains in earlier years e=estimated NA=not available NM=not meaningful

The Business Week

EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	1996 SALES: \$ MILLIONS ROE: %	EXECUTIVE	1996 COMPENSATION			1994-96 PAY-PERFORMANCE ANALYSIS					
			TOTAL ANNUAL COMP SALARY & BONUS \$000	% CHANGE FROM 1995	LONG- TERM COMP \$000	PAY VS. SHAREHOLDER RETURN			PAY VS. CORPORATE PROFIT		
						TOTAL COMP \$000	\$ VALUE OF \$100 INVESTED	RATING	ROE %	CHANGE IN ROE %	RATING
AEROSPACE (INDUSTRIAL: HIGH TECH)											
BOEING	22681.0	F. Shrontz, chmn.	1848	12	6132	16707	259	3	7.6	-27.7	4
	10.0	P. M. Condit, pres. & CEO*	1334	43	2791	7158		3			4
		*Became CEO 4/29/96.									
GENERAL DYNAMICS	3581.0	J. R. Mellor, chmn. & CEO	2617	-1	198	18850	167	4	16.2	-31.3	3
	15.8	N. D. Chabreja, vice-chmn.	1396	7	133	5409		3			3
THE HED MARTIN	26875.0	N. R. Augustine, chmn. & CEO*†	2781	20	20324	35531	236	5	17.6	26.9	3
	21.9	F. C. Lanza, exec. v-p	1947	NA	48918**	NA		NA			NA
		*Became CEO 1/1/96. **Includes \$41 mil payout from Loral options. Joined company 4/1/96.									
McDONNELL DOUGLAS	13814.0	H. C. Stonecipher, pres. & CEO	1843	-9	0	12313	380	2	9.2	146.6	3
	25.9	J. F. McDonnell, chmn.	932	-13	3308	8916		2			3
THORP MAN	8071.0	K. Kresa, chmn., pres. & CEO	2094	21	0	5910	243	2	10.3	51.4	2
	11.0	G. L. Williams, v-p†	2034*	77	0	4181		2			3
		*Includes \$936,269 tax reimbursement.									
ED NOLOGIES	23434.0	G. David, pres. & CEO	2466	25	4222	12173	230	3	17.8	64.9	2
	20.3	R. F. Daniell, chmn.†	1875	20	0	21560		5			3
AIRLINES (TRANSPORTATION)											
AIR LINES	12952.0	R. W. Allen, chmn., pres. & CEO	1020	-3	1244	4185	131	2	-5.2	NM	1
	8.4	H. C. Alger, exec. v-p	545	9	1505	2963		2			1
WEST NES	9880.5	J. H. Dasburg, pres. & CEO	911	3	5790	17133	NA	NA	NM	NM	NA
	NM	M. E. Levine, exec. v-p	599	-1	4600	8043		NA			NA
WEST NES	3406.2	H. D. Kelleher, chmn., pres. & CEO	567	0	4055	7507	59	4	13.3	-14.1	3
	12.6	G. A. Barron, exec. v-p	374	13	0	1027		2			2
	16362.0	G. Greenwald, chmn. & CEO	1486	2	0	11059	238	2	NM	NM	NA
	54.3	J. A. Edwardson, pres. & COO	939	2	0	7696		3			NA
APPLIANCES (CONSUMER PRODUCTS)											
ETT & PLATT	2466.2	H. M. Cornell Jr., chmn. & CEO	582	-46	488	3372	146	1	18.3	8.3	2
	18.1	F. E. Wright, pres. & COO	501	6	0	1619		1			1
Y	6285.5	J. V. Roach, chmn. & CEO	770	-16	87	3967	93	3	6.6	NM	5
	-6.9	L. H. Roberts, pres.	550	-21	0	2394		3			5
LPPOOL	8696.0	D. R. Whitwam, chmn. & CEO	1400	-3	82	6932	75	4	9.5	-42.2	4
	8.1	W. D. Marohn, pres. & COO	760	11	40	3075		4			4
AUTOMOTIVE (CONSUMER PRODUCTS)											
A	7889.5	S. J. Morcott, chmn. & CEO	1997	-24	606	7593	120	3	23.5	33.6	3
	21.4	J. M. Magliocchetti, pres.	973	-17	310	3476		3			2
MOTOR	146991.0	A. J. Trotman, chmn., pres. & CEO	4920	1	2028*	23931	113	5	18.4	13.8	4
	16.4	E. E. Hagenlocker, vice-chmn.	2156	-3	649*	10270		5			4
		*1996 long-term incentive plan payout has not been determined.									
BANKS & BANK HOLDING COMPANIES (FINANCIAL SERVICES)											
C ONE	10272.4	J. B. McCoy, chmn. & CEO	2580	8	1018	7783	149	3	15.4	2.8	2
	16.7	R. J. Lehmann, pres.	1450	21	613	4669		3			3
K OF ON	6237.0	C. K. Gifford, CEO	2990	35	3949	14128	309	3	14.9	38.6	3
	13.8	H. D. Meirelles, pres. & COO†	2130	22	487	5787		2			3
K OF YORK	5713.0	J. C. Bacot, chmn. & CEO	5344	13	2442	17606	263	3	18.5	42.5	3
	20.1	T. A. Renyi, pres.	3170	32	0	7244		3			3
KAMERICA	22071.0	D. A. Coulter, chmn. & CEO*	3542	99	1413	10021	237	3	13.5	20.3	3
	14.6	T. E. Peterson, vice-chmn.	1700	23	1413	7719		3			3
		*Became CEO 1/1/96.									
KERS TRUST YORK	9565.0	F. N. Newman, chmn. & CEO*	8925	584	1131**	NA	130	NA	10.1	-48.1	NA
	12.7	J. E. Virtue, sr. v-p	11803	NA	60	NA		NA			NA
		*Became CEO 1/1/96. **Includes \$1.1 mil in relocation expenses.									

EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	1996 SALES: \$ MILLIONS ROE %	EXECUTIVE	1996 COMPENSATION			1994-96 PAY-PERFORMANCE ANALYSIS				
			TOTAL ANNUAL COMP SALARY & BONUS \$000	% CHANGE FROM 1995	LONG- TERM COMP \$000	PAY VS. SHAREHOLDER RETURN			PAY VS. CORPORATE PROFIT	
						TOTAL COMP \$000	\$ VALUE OF \$100 INVESTED	RATING	ROE %	CHANGE IN ROE %
BARNETT BANKS	3816.3 16.7	C. E. Rice, chmn. & CEO A. L. Lastinger Jr., pres. & COO *Includes \$1.7 mil tax reimbursement for options exercise. **Includes \$376,274 tax reimbursement for options exercise.	4308* 1682**	87 15	4063 1744	14836 7362	220	[3] [3]	16.4	10.1
CHASE MANHATTAN	27421.0 12.2	W. V. Shipley, chmn. & CEO T. G. Labrecque, pres. & COO†	5664 5211	90 50	3723 2070	18618 18812	247	[4] [4]	13.3	-17.8
CITICORP	32605.0 19.5	J. S. Reed, chmn. & CEO W. J. Campbell, exec. v-p* *Joined company 1/1/96.	3467 1337	-19 NA	40143 0	56924 NA	295	[5] NA	20.3	22.4
CORESTATES FINANCIAL	4197.3 17.6	T. A. Larsen, chmn. & CEO R. B. Greco, pres.	1094 671	-14 -3	11820 2669	16134 5321	225	[4] [3]	15.7	5.0
CRESTAR FINANCIAL	1899.7 12.3	R. G. Tilghman, chmn. & CEO J. M. Wells III, pres. & COO* *Passed away 10/1/96	1392 841	21 15	700 156	6096 3105	197	[2] [2]	13.2	-5.7
FIFTH THIRD BANCORP	1753.5 15.6	G. A. Schaefer Jr., pres. & CEO S. J. Schrantz, exec. v-p	1392 651	23 13	1162 393	4840 2201	195	[2] [1]	16.6	-4.7
FIRST BANK SYSTEM	3839.6 24.0	J. F. Grundhofer, chmn., pres. & CEO R. A. Zona, vice-chmn.	2066 1084	13 15	12925 4319	28024 11853	243	[4] [4]	19.2	76.0
FIRST CHICAGO NBD	10117.0 16.4	V. G. Istock, pres. & CEO D. J. Vitale, vice-chmn.†	2072 1177	52 0	1945 2754	8460 9075	204	[3] [4]	15.7	10.6
FIRST OF AMERICA BANK	2082.9 14.4	R. F. Chormann, chmn., pres. & CEO* W. R. Cole, chmn. & CEO-sub.† *Became CEO 5/1/96	787 410	58 24	0 0	1896 1128	174	[1] [1]	13.8	-9.1
FIRST TENNESSEE NATIONAL	1467.7 18.8	R. Horn, pres. & CEO J. K. Glass, pres.-sub. *Excludes \$100,000 salary paid in form of 21,692 options.	732* 446	4 25	117 670	4032 1815	218	[1] [1]	19.1	6.1
FIRST UNION	11985.0 14.9	E. E. Crutchfield, chmn. & CEO J. R. Georgius, vice-chmn.	3114 2155	20 28	4924 1729	15375 8972	201	[4] [4]	15.8	-2.8
FIRSTAR	1823.5 14.7	R. L. Fitzsimonds, chmn. J. A. Becker, pres.	806 581	-17 -16	596 406	3834 2698	190	[1] [2]	15.2	-15.3
FLEET FINANCIAL GROUP	8043.0 16.5	T. Murray, chmn., pres. & CEO J. B. Alvord, chmn.† *Includes \$12.1 mil in aggregate retirement payment.	3229 3040	12 -25	2379 19409*	12055 NA	169	[3] NA	14.5	11.2
HUNTINGTON BANCSHARES	1783.5 17.3	F. G. Wobst, chmn. & CEO W. L. Hoskins, chmn. & CEO-sub.	1502 829	18 17	1444 2250	6156 4819	180	[2] [3]	16.9	-3.0
KEYCORP	6038.0 15.9	R. W. Gillespie, chmn., pres. & CEO H. L. Meyer III, vice-chmn., COO May contain data from a preliminary source.	1422 685	23 10	1268 342	6367 2986	192	[2] [2]	16.6	-2.8
MARSHALL & ILSLEY	1474.8 15.8	J. B. Wigdale, chmn. & CEO D. J. Kuester, pres.	950 778	15 12	555 550	3449 3014	159	[1] [2]	13.2	-4.5
MBNA	3279.2 28.8	A. Lerner, chmn. & CEO C. M. Cawley, pres.	4515 4586	62 59	1585 6088	13580 21359	303	[3] [4]	28.5	6.7
MELLON BANK	4762.0 19.9	F. V. Cahouet, chmn., pres. & CEO C. M. Condron, vice-chmn.†	2024 880	33 -3	4170 1097	14083 4511	229	[3] [2]	15.9	82.0
MORGAN (J.P.)	15866.0 14.4	D. A. Warner III, chmn. K. F. Viernitz, vice-chmn.	3234 2634	34 25	6787 7242	19500 17004	160	[4] [5]	13.4	-21.2
NATIONAL CITY	4928.4 16.5	D. A. Daberk, chmn. & CEO W. R. Robertson, pres.	966 842	21 23	3357 3993	6852 7147	208	[2] [3]	16.7	9.3
NATIONS BANK	17509.0 18.6	H. L. McColl, Jr., CEO K. D. Lewis, pres.	4056 2600	16 30	0 0	21281 6543	220	[4] [3]	16.4	43.1
NORTHERN TRUST	1929.4 17.8	W. A. Osborn, chmn. & CEO B. G. Hastings, pres. & COO	1000 775	51 25	1014 698	4930 4540	196	[2] [2]	16.7	8.3
NORWEST	8882.9 19.3	R. M. Kovacevich, pres. & CEO L. S. Biller, exec. v-p	3139 1543	3 1	4855 1680	16901 6806	195	[4] [3]	20.3	-0.3
PNC BANK	6333.8 16.9	T. H. O'Brien, chmn. & CEO J. E. Rohr, pres.	2102 1353	34 38	2137 1436	7131 4405	151	[3] [3]	12.6	-1.7
REGIONS FINANCIAL	1606.9 14.4	J. S. Mackin, chmn. & CEO R. D. Horsley, vice-chmn. May contain data from a preliminary source.	1330 428	15 4	2538 1293	8335 2700	176	[3] [2]	14.7	9.1
REPUBLIC NEW YORK	3279.2 14.1	W. H. Weiner, chmn. & CEO D. C. Schlein, vice-chmn.	1550 1510	61 99	472 463	4657 4881	189	[2] [3]	13.3	13.1
SOUTHTRUST	2059.0 14.7	W. D. Malone Jr., chmn. & CEO J. W. Banton, pres. & CEO-sub.	1660 501	44 0	1572 625	5396 2167	203	[2] [1]	14.6	2.6
STAR BANC	906.1 18.5	J. A. Grundhofer, chmn., pres. & CEO D. M. Moffett, exec. v-p & CFO	1575 556	6 10	0 0	6302 1592	288	[1] [1]	17.1	23.4
STATE STREET BOSTON	2744.4 18.0	M. N. Carter, chmn. & CEO N. A. Lopardo, exec. v-p	1502 1659	25 18	5403 591	10317 5056	181	[3] [3]	16.8	10.9
SUMMIT BANCORP.	1798.3 11.8	T. J. Semrod, chmn. & CEO R. G. Cox, pres.	1469 920	16 NA	592 1297	5393 NA	201	[2] NA	12.4	53.6
SUNTRUST BANKS	4064.0 12.6	J. B. Williams, chmn. & CEO L. P. Humann, pres.	1125 664	9 7	5085 3584	9943 6849	235	[3] [3]	13.7	-3.7



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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	1996 SALES \$ MILLIONS ROE %	EXECUTIVE	1996 COMPENSATION			1994-96 PAY-PERFORMANCE ANALYSIS				
			TOTAL ANNUAL COMP SALARY & BONUS \$000	% CHANGE FROM 1995	LONG- TERM COMP \$000	PAY VS. SHAREHOLDER RETURN			PAY VS. CORPORATE PROFIT	
						TOTAL COMP \$000	\$ VALUE OF \$100 INVESTED	RATING	ROE %	CHANGE IN ROE %
SYNOVUS FINANCIAL	1088.7 17.8	J. H. Blanchard, chmn. & CEO† J. D. Yancey, vice-chmn.†	1033 679	24 19	407 433	3567 2596	276	1	17.1	14.6
U.S. BANCORP	3068.5 18.2	G. B. Cameron, chmn., pres. & CEO D. R. Nelson, pres. & COO†	1647 989	19	1428 677	5290 NA	200	2 NA	13.2	23.7
WACHOVIA	4015.0 17.3	L. M. Baker Jr., pres. & CEO G. J. Prendergast, exec. v-p	1059 674	5 5	1090 1313	6057 3666	187	2 2	16.6	6.0
WELLS FARGO	8723.0 7.4	P. Hazen, chmn. & CEO W. F. Zuendt, pres.	2861 1819	2 4	993 3853	12454 8874	225	3 3	19.5	-51.4

6 BEVERAGES (CONSUMER PRODUCTS)

ANHEUSER-BUSCH	10883.7 28.7	A. A. Busch III, chmn., pres. & CEO P. T. Stokes, v-p	2437 1205	51 48	6112 2300	12557 6570	180	3 3	24.0	105.4
COCA-COLA	18546.0 56.7	R. C. Goizueta, chmn. & CEO M. D. Ivester, pres. & COO	5213 1925	7 17	10857 20049	41034 27983	246	5 5	53.6	18.8
COCA-COLA ENTERPRISES	7921.0 7.5	S. K. Johnston Jr., vice-chmn. & CEO H. A. Schimberg, pres. & COO	4829 4677	26 28	445 12130	15175 29519	320	3 5	6.1	NM
PEPSICO	31645.0 17.3	D. W. Calloway, chmn. & CEO R. A. Enrico, chmn. & CEO*	2347 3091**	-32 85	7096 1745	23926 20547	151	4 5	21.8	-30.7

*Became CEO 4/1/96. **Includes \$777,311 in relocation expenses.

7 BUILDING (INDUSTRIAL: LOW TECH)

PPG INDUSTRIES	7218.1 30.0	J. E. Dempsey, chmn. & CEO R. W. LeBoeuf, pres. & COO	2078 1132	-2 11	1089 1031	7691 5637	161	3 3	26.7	151.2
SHERWIN-WILLIAMS	4132.9 16.4	J. G. Breen, chmn. & CEO T. A. Commes, pres. & COO	1540 1016	12 12	1546 1742	6911 4942	165	3 3	16.9	2.3

8 CHEMICALS (INDUSTRIAL: LOW TECH)

AIR PRODUCTS & CHEMICALS	4181.9 16.6	H. A. Wagner, chmn., pres. & CEO J. J. Kaminski, exec. v-p	1211 562	-9 -10	951 588	5412 3116	166	2 1	14.2	73.2
DOW CHEMICAL	20053.0 23.9	W. S. Stavropoulos, pres. & CEO A. J. Carbone, exec. v-p	1507 955	18 20	1471 560	7193	155	3	19.9	201.3
DUPONT	43810.0 34.6	J. A. Krol, pres. & CEO A. W. Dunham, exec. v-p	2400 1620	38 75	389 4128	6244 7774	214	2 3	32.1	584.6
EASTMAN CHEMICAL	4782.0 23.2	E. W. Deavenport Jr., chmn. & CEO R. W. Bourne Jr., vice-chmn. & exec. v-p	1064 625	-20 -19	601 588	6598 3752	127	3 3	28.6	-7.9
ENGELHARD	3184.4 18.1	O. R. Smith, chmn. & CEO L. D. LaTorre, pres. & COO†	1575 830	-5 -2	1246 622	15928 7970	124	5 4	18.6	475.5
HERCULES	2060.6 36.7	T. L. Gossage, chmn.† R. K. Elliott, chmn. & CEO*	1498 871	-24 -12	3430 107	14607 5719	121	5 4	29.5	140.7
IMC GLOBAL	2941.1 10.2	W. F. Bueche, chmn. & CEO J. D. Speir, pres. & COO†	970 565	-2 5	1472 3153*	4821 4915	176	1 3	8.8	NM
INTL. FLAVORS & FRAGRANCES	1436.1 17.2	E. P. Grisanti, chmn. & pres. H. R. Kirkpatrick, sr. v-p	1113 606	-13 -4	0 248	3636 2767	129	1 2	20.6	-24.1
MONSANTO	9262.0 10.4	R. B. Shapiro, chmn. & CEO N. L. Reding, vice-chmn.	2920 1459	52 5	1493 1154	9130 6416	287	2 2	17.1	-39.7
MORTON INTERNATIONAL	3742.8 18.7	S. J. Stewart, chmn. & CEO W. E. Johnston Jr., pres. & COO	1490 850	10 4	1291 695	12111 6337	137	4 4	17.5	76.7
PRAXAIR	4449.0 14.7	H. W. Lichtenberger, chmn. & CEO E. G. Hotard, pres.	1962 1131	15 4	13541 7547	18821 10564	287	4 3	20.7	-34.9
ROHM & HAAS	3982.0 22.3	J. L. Wilson, chmn. & CEO J. P. Mulroney, pres.	1260 864	28 30	763 544	4783 3329	148	2 2	19.0	146.5
UNION CARBIDE	6106.0 27.5	W. H. Joyce, chmn., pres. & CEO J. E. Geoghan, v-p	1883 698	28 -1	222* 2183**	4985 4657	195	1 2	32.3	158.2

*Became CEO 8/2/96; became chairman on 1/1/97.

*Includes \$1.7 mil noncompete agreement & \$635,020 severance.

*Excludes \$325,533 from Praxair options exercise. **Excludes \$607,038 from Praxair options exercise

9 CONGLOMERATES (INDUSTRIAL: LOW TECH)

ALLEGHENY TELEDYNE	3815.6 25.8	W. P. Rutledge, pres. & CEO* A. H. Aronson, exec. v-p†	1505 670*	6 -5	0 725**	4322 2987	184	1 1	21.1	-0.6
ALLIEDSIGNAL	13971.0 24.4	L. A. Bossidy, chmn. & CEO F. M. Poses, exec. v-p	4807 1179	9 7	7005 2081	32664 12647	179	5 5	24.7	-11.1
GENERAL ELECTRIC	78541.0 23.4	J. F. Welch Jr., chmn. & CEO P. Fresco, vice-chmn.	6300 3058	18 16	21321 10916	57292 27251	204	5 5	22.7	36.5
HARCOURT GENERAL	3360.2 18.6	R. J. Tarr Jr., pres. & CEO* R. A. Smith, chmn.**	2853 1275	5 0	3264 0	16643 3825	134	5 3	15.6	18.2
IKON OFFICE SOLUTIONS	4339.6 13.7	J. E. Stuart, chmn., pres. & CEO J. J. Forese, exec. v-p & COO*	1800 975	6 NA	2320 166	8198 NA	197	3 NA	11.2	NM

*Resigned 1/15/97. **Began serving as CEO beginning 1/15/97.

*Joined company 1/1/96.



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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	EXECUTIVE		1996 COMPENSATION			1994-96 PAY-PERFORMANCE ANALYSIS					
			TOTAL ANNUAL COMP.	% CHANGE FROM 1995	LONG-TERM COMP. \$000	PAY VS. SHAREHOLDER RETURN			PAY VS. CORPORATE PROFIT		
SALES: \$ MILLIONS	ROE %	SALARY & BONUS \$000	TOTAL COMP \$000			\$ VALUE OF \$100 INVESTED	RATING	ROE %	CHANGE IN ROE %	RAT	
ROCKWELL INTERNATIONAL	10596.0	D. R. Beall, chmn. & CEO	3007	5	324	8323	176	[3]	16.4	-44.1	[2]
	10.6	D. H. Davis Jr., pres. & COO	1395	-14	0	4997		[3]			[2]
TENNECO	6572.0	D. G. Mead, chmn. & CEO	2706	31	2500	9848	111	[4]	15.0	-51.1	[4]
	8.2	P. T. Stecko, COO†	909	29	1200	3802		[3]			[4]
TEXTRON	9274.0	J. F. Hardyman, chmn. & CEO	2663	11	1970	11008	174	[4]	14.8	10.8	[4]
	15.2	L. B. Campbell, pres. & COO	1200	11	1114	8589		[4]			[4]
TRW	9857.0	J. T. Gorman, chmn. & CEO	5052	3	0	15419	155	[4]	15.7	-42.1	[5]
	8.3	P. S. Hellman, pres. & COO	2810	8	0	7505		[4]			[4]

10 CONTAINERS (INDUSTRIAL: LOW TECH)

CROWN CORK & SEAL	8331.9 8.4	W. J. Avery, chmn. & CEO A. W. Rutherford, exec. v-p & CFO	1000 419	10 24	0 147	4710 1601	133	[2] [1]	7.7	-42.0	[5] [4]
TEMPLE-INLAND	3460.0 6.6	C. J. Grum, chmn. & CEO K. M. Jastrow II, group v-p & CFO	900 725	-17 5	104 7	3310 1871	115	[2] [1]	9.4	66.6	[2] [2]
UNION CAMP	4013.2 4.1	W. C. McClelland, chmn. & CEO J. H. Ballengee, pres. & COO	773 512	-37 -33	36 93	3596 2567	111	[2] [2]	10.6	47.9	[2] [3]

11 DRUGS (CONSUMER PRODUCTS)

ABBOTT LABORATORIES	11013.5 39.0	D. L. Burnham, chmn. & CEO T. R. Hodgson, pres. & COO	2421 1510	8 6	1311 734	7765 5141	183	[2] [3]	38.3	2.6	[2] [2]
AMERICAN HOME PRODUCTS	14088.3 28.9	J. R. Stafford, chmn., pres. & CEO R. G. Blount, sr. exec. v-p	2460 1300	4 3	15937 5234	25572 13268	203	[4] [4]	31.7	-23.9	[4] [4]
AMGEN	2239.8 35.7	G. M. Binder, chmn. & CEO K. W. Sharer, pres. & COO	1624 1205	7 15	10672 3392	35057 8191	220	[4] [3]	31.0	11.6	[4] [4]
BAXTER INTERNATIONAL	5438.0 23.0	V. R. Loucks Jr., chmn. & CEO H. M. Jansen Kraemer Jr., sr. v-p & CFO	1877 680	0 27	0 0	5343 1951	201	[2] [1]	16.3	NM	[1] [1]
BECTON, DICKINSON	2785.6 22.9	C. Castellini, chmn., pres. & CEO J. W. Galiardo, vice-chmn.	1354 730	18 10	397 453	4038 3170	253	[1] [1]	18.7	58.0	[1] [1]
BOSTON SCIENTIFIC	1462.0 18.2	P. M. Nicholas, chmn., pres. & CEO J. E. Abele, director	1150 715	9 4	2628 1865	5883 4011	480	[1] [1]	14.3	-35.4	[4] [4]
BRISTOL-MYERS SQUIBB	15065.0 43.4	C. A. Heimbald Jr., chmn., pres. & CEO M. E. Autera, exec. v-p	2322 1120	-2 -2	4259 1765	11181 6010	215	[3] [3]	35.6	31.5	[3] [2]
GENENTECH	846.4 6.6	A. D. Levinson, pres. & CEO W. D. Young, exec. v-p	800 580	19 8	0 1628	2167 3235	106	[1] [3]	8.3	24.6	[2] [3]
GUIDANT	1048.5 14.7	J. M. Cornelius, chmn.† R. W. Dollens, pres. & CEO†	1188 585	12 21	753 749	5195 3010			25.3	193.7	[1] [2]
JOHNSON & JOHNSON	21620.0 26.6	R. S. Larsen, chmn. & CEO R. N. Wilson, vice-chmn.	2846* 2339**	6 8	2649 1964	10064 10139	235	[3] [4]	27.1	-17.0	[3] [4]
*Includes \$774,221 dividend equivalents. **Includes \$787,782 dividend equivalents.											
LILLY (ELI)	7346.6 24.9	R. L. Tobias, chmn. & CEO C. E. Golden, exec. v-p & CFO*	2401 1628	20 NA	4209 802	13139 NA	271	[3] NA	23.7	131.8	[3] NA
*Joined company 3/4/96.											
MALLINCKRODT	2302.4 15.6	C. R. Holman, chmn. & CEO M. G. Nichols, pres. & COO	1194 652	10 5	0 127	4124 2156	138	[2] [2]	14.0	NM	[1] [1]
MEDTRONIC	2393.9 25.1	W. W. George, pres. & CEO A. D. Collins Jr., COO	1015* 784**	22 27	1296 702	5334 3188	338	[1] [1]	23.9	13.7	[2] [2]
*Excludes \$200,000 bonus paid as 15,059 stock options **Excludes \$75,000 bonus paid as 5,648 stock options.											
MERCK	19828.7 32.4	R. V. Gilmarin, chmn., pres. & CEO E. M. Scolnick, exec. v-p	2300 1463	10 12	0 1007	6720 10467	251	[2] [4]	29.2	50.0	[2] [3]
PFIZER	11306.0 29.4	W. C. Steere, Jr., chmn. & CEO H. A. McKinnell Jr., exec. v-p & CFO	3511 1531	13 14	9759 2168	25436 8234	257	[4] [3]	29.2	72.7	[3] [4]
PHARMACIA & UPJOHN	7285.7 9.0	J. L. Zabriskie, pres. & CEO* L. S. Smith, exec. v-p	1594 839	-23 -25	427 7182	6455 10453	222	[2] [4]	13.5	-52.4	[4] [5]
*Resigned 1/20/97											
SCHERING-PLOUGH	5655.8 58.9	R. J. Kogan, pres. & CEO* R. P. Luciano, chmn.	1980 2427	33 -1	7023 8029	18288 25085	204	[4] [5]	60.8	12.9	[3] [3]
*Became CEO 1/1/96											
SIGMA-ALDRICH	1034.6 16.2	C. T. Cori, chmn. & CEO D. R. Harvey, pres. & COO	825 546	-4 2	205 101	3505 2025	133	[2] [2]	16.0	-10.6	[3] [2]
WARNER-LAMBERT	7231.4 30.5	M. R. Goodes, chmn. & CEO L. J. de Vink, pres. & COO	2362 1367	37 21	0 1154	10173 6177	243	[2] [3]	33.9	48.6	[2] [2]

12 ELECTRICAL & ELECTRONICS (INDUSTRIAL: HIGH TECH)

ADVANCED MICRO DEVICES	1953.0 -3.4	W. J. Sanders III, chmn. & CEO R. Previte, pres. & COO	3256* 1268*	-1 -37	0 882	15577 11272	145	[4] [4]	9.3	NM	[4] [5]
*Represents 54 weeks of salary.											
AMP	5468.0 10.3	W. J. Hudson Jr., pres. & CEO J. E. Marley, chmn.	843 674	-27 -24	1952 1544	6039 4942	131	[3] [4]	13.8	-28.7	[3] [3]

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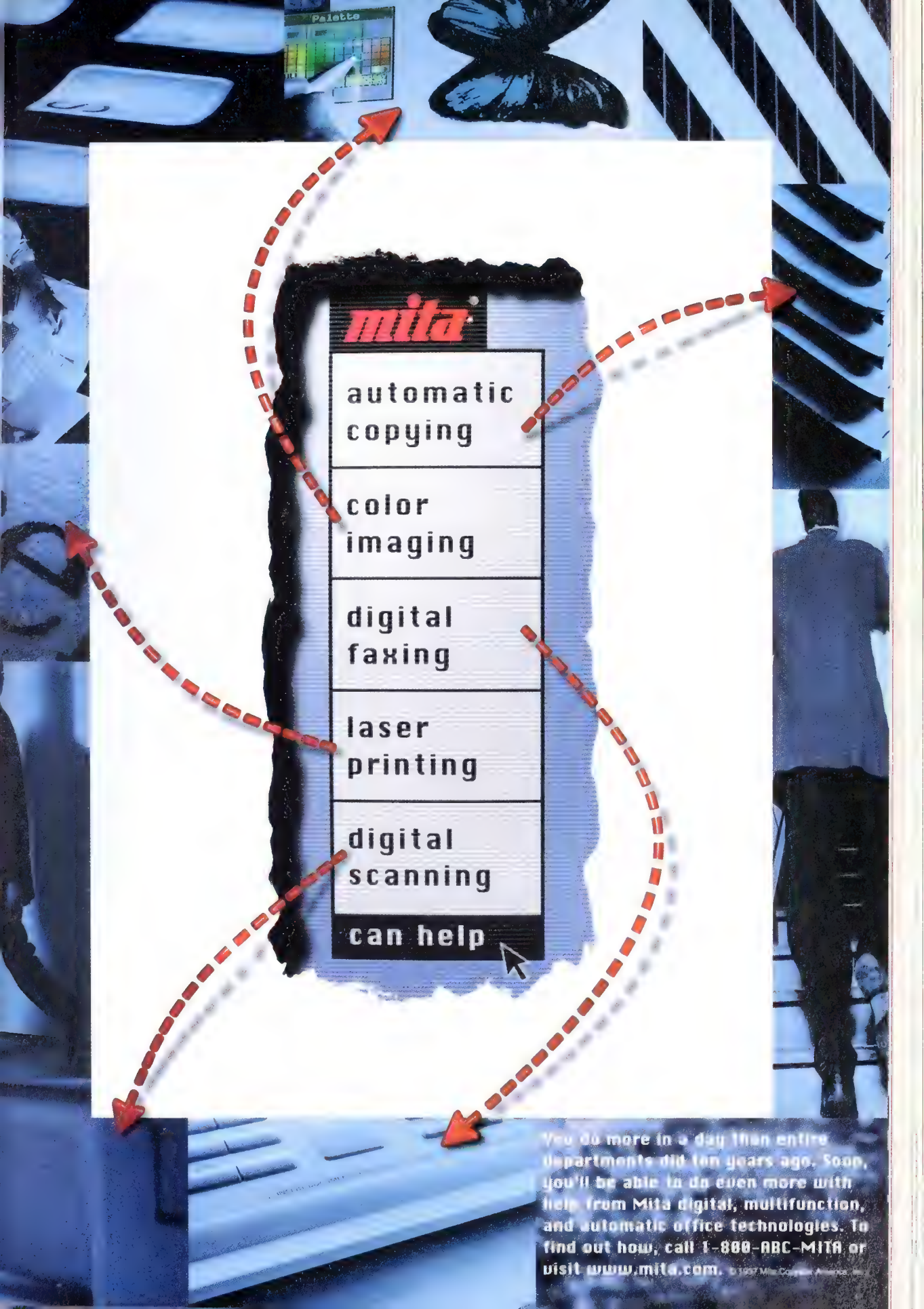
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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	1996 SALES \$ MILLIONS ROE %	EXECUTIVE	1996 COMPENSATION			1994-96 PAY-PERFORMANCE ANALYSIS					
			TOTAL ANNUAL COMP SALARY & BONUS \$000	% CHANGE FROM 1995	LONG- TERM COMP \$000	PAY VS. SHAREHOLDER RETURN TOTAL COMP \$000	\$ VALUE OF \$100 INVESTED	RATING	PAY VS. CORPORATE PROFIT ROE %	CHANGE IN ROE %	RATING
ANALOG DEVICES	1205.1	R. Stata, chmn. & CEO	1276	7	0	3841	310	1	17.1	83.4	1
	18.9	J. G. Fishman, pres. & COO* *Became CEO 11/3/96.	1385	19	3684	8162		3			3
ANDREW	847.3	F. L. English, chmn., pres. & CEO	1286	-26	0	23861	465	3	18.6	58.9	3
	20.2	C. R. Nicholas, exec. v-p & CFO	565	-8	0	9457		2			3
COOPER INDUSTRIES	5283.7	H. J. Riley Jr., chmn., pres. & CEO	1494	89	0	2950	96	2	14.0	56.8	1
	16.7	R. E. Jackson Jr., exec. v-p	735	66	0	1553		1			1
EATON	6961.0	S. R. Hardis, chmn. & CEO	1746	21	740	6660	149	3	18.7	-0.8	2
	16.2	A. M. Cutler, pres. & COO	1212	10	755	5203		3			2
EMERSON ELECTRIC	11414.7	C. F. Knight, chmn., pres. & CEO	2037	0	0	15837	173	4	19.6	4.9	3
	19.0	A. E. Suter, sr. vice-chmn. & COO	1000	1	0	2965		2			2
HARRIS	3717.2	P. W. Farmer, chmn., pres. & CEO	1123	21	1362	5888	164	2	11.8	30.4	2
	12.7	W. E. Cantrell, pres.-Lanier Worldwide	677	6	679	3217		2			2
INTEL	20847.0	A. S. Grove, pres. & CEO	3003	9	94586	107873	426	NA	28.2	-0.1	NA
	30.6	C. R. Barrett, exec. v-p & COO May contain data from a preliminary source.	2297	11	13942	19861		NA			NA
LINEAR TECHNOLOGY	374.9	R. H. Swanson Jr., pres. & CEO	1192	31	671	3660	230	1	26.6	19.5	1
	26.8	C. B. Davies, v-p & COO	993	32	1844	5439		2			2
LSI LOGIC	1238.7	W. J. Corrigan, chmn. & CEO	696	-48	0	8210	337	2	16.9	-39.2	3
	11.2	W. R. Marz, exec. v-p†	371	79	0						
MICRON TECHNOLOGY	3196.1	S. R. Appleton, chmn., pres. & CEO*	2079	23	2739	12217	317	3	31.3	-30.6	2
	11.3	T. A. Lowrey, vice-chmn. & COO** *Resigned on 1/18/96; rehired as CEO on 1/26/96. **Became CEO 1/18/96 and served as CEO from 1/18/96 through 1/26/96.	2057	21	2303	9159		3			3
MOLEX	1436.6	F. A. Krehbiel, chmn. & CEO	930	-4	232	2849	173	1	11.6	29.7	2
	12.9	J. H. Krehbiel Jr., pres. & COO	753	-10	153	2470		1			2
MOTOROLA	27973.0	G. L. Tooker, vice-chmn. & CEO	1847	-9	0**	16684	136	4	14.4	-38.6	3
	9.8	C. B. Galvin, pres. & COO* *Became CEO 1/1/97. **1996 long-term awards have not yet been determined.	1432	-9	0**	15585		5			4
NATIONAL SEMICONDUCTOR	2440.3	G. F. Amelio, chmn., pres. & CEO*	586	-59	2863	10860	151	3	6.4	-147.2	5
	-10.3	K. P. Pond, exec. v-p *Resigned 2/1/96.	561	-25	905	4234		3			5
QUALCOMM	1056.2	I. M. Jacobs, chmn. & CEO	676	6	3294	20653	150	5	4.0	-54.0	4
	2.3	H. P. White, pres.	455	2	637	4685		3			4
RAYCHEM	1721.4	R. A. Kashnow, chmn., pres. & CEO*	686	NA	2515*	NA	218	NA	7.1	1976.5	NA
	23.9	R. J. Saldich, pres. & CEO *Joined company as CEO 10/1/95. Includes \$865,000 reimbursement of lost compensation from previous employer **Includes \$243,784 related to retirement & consulting agreement.	441	-45	3139**	5158		2			2
RAYTHEON	12260.9	D. J. Picard, chmn. & CEO	2885	54	700*	8933	154	3	16.9	6.1	2
	17.1	A. L. Lawson, exec. v-p *Includes \$700,000 strategic accomplishment award.	1025	3	0	NA		NA			NA
TEXAS INSTRUMENTS	9940.0	T. J. Engibous, pres. & CEO*	510	-63	875	6356	208	2	16.1	NM	4
	-1.1	W. P. Weber, vice-chmn.** *Became CEO 6/20/96. **Became CEO 5/29/96 and left office 6/20/96.	424	-63	0	10543		4			4
WESTINGHOUSE ELECTRIC	8449.0	M. H. Jordan, chmn. & CEO	2000*	-20	273	6334	146	3	-6.1	NM	4
	-14.6	P. A. Lund, pres. & CEO-CBS Inc.† *Excludes \$272,813 bonus paid in restricted stock.	2694	NM	0	NA		NA			NA

13 FOOD PROCESSING (CONSUMER PRODUCTS)

ARCHER DANIELS MIDLAND	13715.7	D. O. Andreas, chmn. & CEO	3909	4	0	11043	171	3	10.4	-26.6	4
	8.0	J. R. Randall, pres.	1869	11	911	5952		3			4
CAMPBELL SOUP	7840.0	D. W. Johnson, chmn., pres. & CEO	2148	-3	0	9090	211	3	33.6	170.8	2
	40.9	F. E. Weise III, sr. v-p* *Resigned 1/1/97.	644	-11	0	2710		2			1
CONAGRA	24924.3	P. B. Fletcher, chmn. & CEO	2251	19	2201	13002	203	3	12.0	-50.2	5
	9.2	A. J. Crosson, pres. & COO-division	924	-8	734	5362		3			5
CPC INTERNATIONAL	9844.0	C. R. Shoemate, chmn., pres. & CEO	1471	8	5216	12992	175	4	24.7	10.3	3
	28.3	R. J. Gillespie, exec. v-p	827	8	2272	6944		4			3
GENERAL MILLS	5567.0	S. W. Sanger, chmn. & CEO	1410	198	203	2696	141	1	175.1	356.6	1
	186.3	C. W. Gaillard, pres.	1183	171	1194	3511		2			1
HEINZ (H.J.)	9446.9	A. J. O'Reilly, chmn. & CEO	2736	39	61500	68179	166	5	24.7	0.5	5
	25.9	W. R. Johnson, pres. & COO	1198	52	215	3282		2			2
HERSHEY FOODS	3989.3	K. L. Wolfe, chmn. & CEO	1398	30	1370	6006	191	2	20.8	11.8	3
	23.5	J. P. Viviano, pres. & COO	1024	22	869	4251		2			3
KELLOGG	6676.6	A. G. Langbo, chmn. & CEO	1248	-24	1460	8234	124	3	37.1	4.2	2
	41.4	T. A. Knowlton, exec. v-p	658	-22	318	3184		3			1
NABISCO HOLDINGS	8889.0	H. J. Greeniaus, chmn., pres. & CEO†	1965	-43	661	10737	NA	NA	5.7	-66.0	5
	0.4	J. J. Postl, pres.-Nabisco Biscuit Co.†	838	7	1139	3616		NA			4
PIONEER HI-BRED INTERNATIONAL	1719.0	C. S. Johnson, pres. & CEO	1688	134	1040	5119	189	2	22.7	42.9	2
	23.8	J. L. Chicoine, sr. v-p & CFO	809	76	462	2820		2			2



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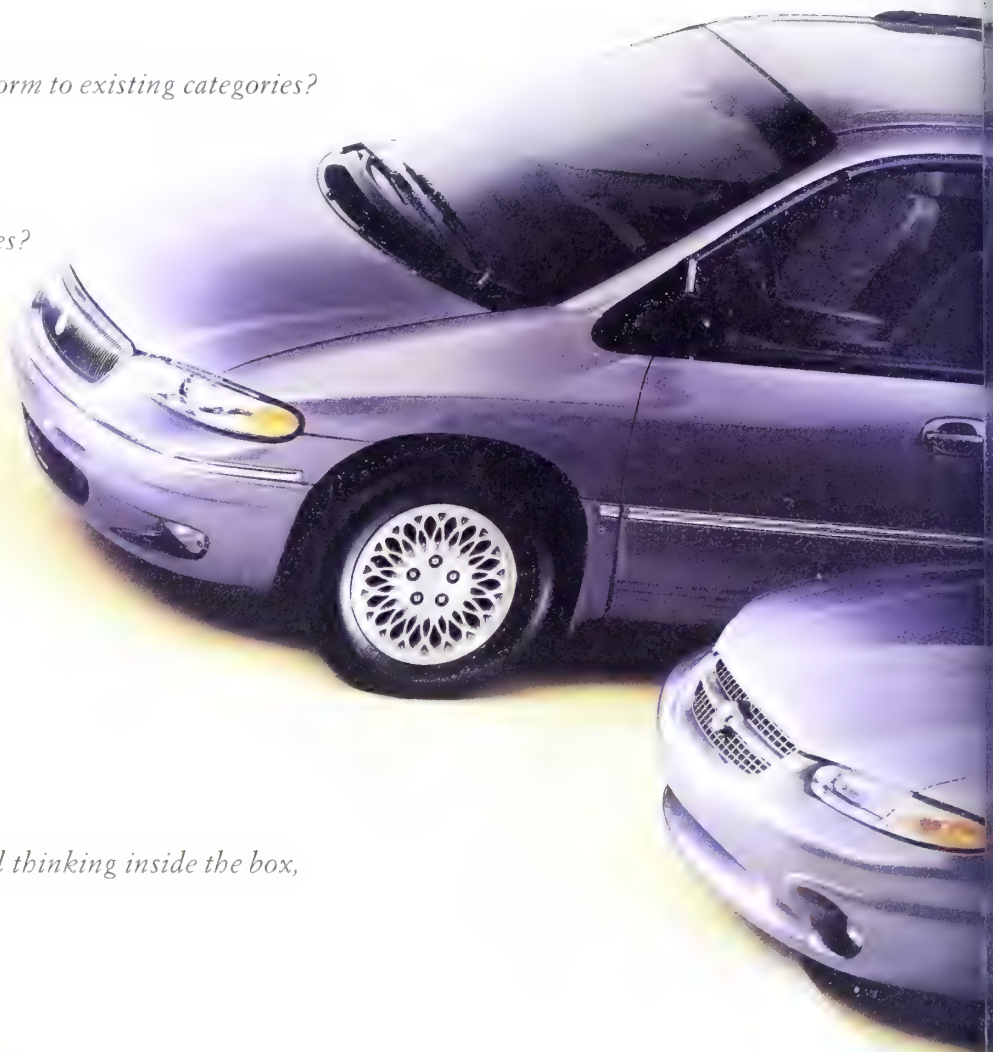
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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	EXECUTIVE		1996 COMPENSATION			1994-96 PAY-PERFORMANCE ANALYSIS						
			TOTAL ANNUAL COMP.		LONG-TERM COMP. \$000	PAY VS. SHAREHOLDER RETURN			PAY VS. CORPORATE PROFIT			
	1996 SALES \$ MILLIONS	ROE %	SALARY & BONUS \$000	% CHANGE FROM 1995			TOTAL COMP \$000	\$ VALUE OF \$100 INVESTED	RATING	ROE %	CHANGE IN ROE %	RATING
QUAKER OATS	5199.0		W. D. Smithburg, chmn., pres. & CEO	880	-32	1723	5884	119	3	47.3	-61.3	2
	19.9		J. F. Doyle, exec. v-p	736	2	268	2409		2			2
RALSTON PURINA	6235.3		W. P. Stiritz, chmn., pres. & CEO	2151	8	4792	10291	227	3	54.2	-29.0	2
	43.1		J. P. Mulcahy, v-p	625	9	0	1648		1			1
SARA LEE	19225.0		J. H. Bryan, chmn. & CEO	2299	3	4327	11509	161	4	15.6	12.7	3
	21.2		M. E. Murphy, vice-chmn.	1199	-5	2317	6049		3			3
SYSCO	14091.2		B. M. Lindig, pres. & CEO	1055	1	413	4363	117	2	18.4	11.2	2
	19.7		J. F. Woodhouse, chmn.	1045	-5	380	4489		3			3
TYSON FOODS	6434.9		L. E. Tollett, chmn. & CEO	608	1	0	2830	144	1	6.8	-58.0	5
	5.6		D. Tyson, sr. chmn.	1700*	0	0	5539		4			5
*Includes \$696,839 related to travel & entertainment.												
WRIGLEY (WM.) JR.	1836.0		W. Wrigley, pres. & CEO	500*	-32	25*	3671	135	2	29.1	-15.6	1
	25.7		D. S. Barrie, group v-p	383*	-33	989*	3257		2			2
*1996 bonus & restricted stock awards not yet determined.												

14 FOOD & LODGING (SERVICE)

HILTON HOTELS	3940.0	S. F. Bollenbach, pres. & CEO*†	1058	NA	0	NA	181	NA	9.8	-49.7	NA
	4.9	B. Hilton, chmn.	610	-39	0	2610		2			4
*Became CEO and joined company 2/2/96.											
MARRIOTT INTERNATIONAL	10172.0	J. W. Marriott Jr., chmn., pres. & CEO	1651*	10	162	5016	195	2	24.6	6.3	2
	24.3	W. J. Shaw, exec. v-p	971*	13	1246	5856		3			3
*Represents 53 weeks of salary.											

15 GENERAL & SPECIAL MACHINERY (INDUSTRIAL: LOW TECH)

APPLIED MATERIALS	3940.0	J. C. Morgan, chmn. & CEO	1564	-7	0	19498	185	4	22.1	13.0	4
	18.8	D. Maydan, pres.	1160	-1	0	17758		5			5
BLACK & DECKER	4914.4	N. D. Archibald, chmn., pres. & CEO	5216*	103	4238	16141	160	4	12.2	-1.1	4
	9.2	D. G. Heiner, exec. v-p†	620	15	1428	3704		2			3
*Includes \$2.8 mil to cover tax liability related to options exercise.											
CATERPILLAR	16522.0	D. V. Fites, chmn. & CEO	2301	47	1001	8157	178	3	33.1	6.8	2
	33.1	G. S. Flaherty, group pres.	772	31	326	5273		3			2
DEERE	11307.9	H. W. Becherer, chmn. & CEO	2119	17	2073	10496	177	3	23.2	161.9	3
	23.2	E. L. Schotanus, exec. v-p	836	5	1206	4601		3			1
DOVER	4076.3	T. L. Reece, pres. & CEO	1630	25	2100	6854	174	2	23.1	44.0	2
	26.2	L. E. Burns, v-p	790	4	950	4201		2			2
DRESSER INDUSTRIES	6774.2	W. E. Bradford, chmn. & CEO	1402	63	0	3536	163	1	17.2	23.9	1
	16.6	J. J. Murphy, chmn.†	1876	20	1630	6942		4			4
INGERSOLL-RAND	6647.9	J. E. Perella, chmn., pres. & CEO	1788	15	1371	7291	123	3	15.3	41.3	3
	17.1	J. F. Travis, vice-chmn.	847	10	948	3839		3			3
STANLEY WORKS	2670.8	R. H. Ayers, chmn. & CEO*	1031	30	1500	4272	133	2	12.4	-8.7	3
	12.4	R. A. Hunter, pres. & COO	620	29	40	1699		1			2
*CEO left office 12/31/96.											
TYCO INTERNATIONAL	5721.8	L. D. Kozlowski, chmn. & CEO	2183	5	6579	13840	209	4	13.5	98.5	3
	15.6	R. J. Meelia, v-p	1980	NA	0	NA		NA			NA

16 INSTRUMENTS (INDUSTRIAL: HIGH TECH)

HONEYWELL	7311.6	M. R. Bonsignore, chmn. & CEO	1571	25	2117	6115	206	2	16.6	0.5	2
	18.3	D. L. Moore, pres. & COO	1247	15	3115	7170		3			3
PERKIN-ELMER	1211.0	T. L. White, chmn., pres. & CEO*	1538	NA	4207*	NA	162	NA	21.2	101.7	NA
	16.1	G. N. Kelley, chmn., pres. & CEO**	816	35	528	2824		2			1
*Became CEO 9/12/95 and includes \$1.6 mil reimbursement of lost compensation from previous employer. **Resigned 6/1/96.											

17 LEISURE TIME INDUSTRIES (CONSUMER PRODUCTS)

CARNIVAL	2212.6	M. M. Arison, chmn. & CEO	1211	0	0	3336	145	1	19.2	-4.4	2
	18.7	A. K. Lanterman, pres.	1020	-5	0	3133		2			3
DISNEY (WALT)	21180.0	M. D. Eisner, chmn. & CEO	8650	-1	0	34078	167	5	16.5	-34.5	5
	8.7	S. M. Litvack, sr. exec. v-p	1750	-22	3244	9341		4			4
EASTMAN KODAK	15968.0	G. M. Fisher, chmn., pres. & CEO	3987	-7	3397*	24625	196	4	19.9	50.9	4
	21.4	W. J. Prezzano, vice-chmn.	1181	-8	665	8539		4			3
*Includes \$1.9 mil loan forgiveness.											
MATTEL	3786.0	J. W. Amerman, chmn. & CEO	3732*	-12	18923	37045	202	5	25.7	62.8	4
	26.1	B. L. Stein, pres.-Mattel Worldwide	1231**	NA	240	NA		NA			NA
*Includes \$2.3 mil in exchange for canceled SARs. **Includes \$1 mil signing bonus. Joined company 8/1/96.											

18 METALS & MINING (RESOURCES)

ALUMINUM CO. OF AMERICA	13061.0	P. H. O'Neill, chmn. & CEO	1560	-22	6114	21164	195	4	13.6	NM	4
	11.6	A. J. Belda, vice-chmn.	1066	2	611	4070		3			2
FREEPORT-MCMORAN COPPER & GOLD	1905.0	J. R. Moffett, chmn. & CEO	6956	282	26776	NA	130	NA	45.7	532.2	NA
	53.7	R. C. Adkerson, exec. v-p	2909	242	5083	NA		NA			NA

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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	1996 SALES \$ MILLIONS ROE %	EXECUTIVE	1996 COMPENSATION			1994-96 PAY-PERFORMANCE ANALYSIS					
			TOTAL ANNUAL COMP SALARY & BONUS \$000	% CHANGE FROM 1995	LONG- TERM COMP \$000	PAY VS. SHAREHOLDER RETURN TOTAL COMP \$000	\$ VALUE OF \$100 INVESTED	RATING	PAY VS. CORPORATE PROFIT ROE %	CHANGE IN ROE %	RATING
PHELPS DODGE	3786.6	D. C. Yearley, chmn., pres. & CEO	1406	6	1501	9620	151	3	19.0	80.3	3
	16.8	J. S. Whisler, sr. v-p	670	9	791	7180		4			3
REYNOLDS METALS	6972.0	R. G. Holder, chmn. & CEO	647	-61	311	3954	133	2	8.1	NM	1
	2.6	J. J. Sheehan, chmn. & CEO*	511	-45	8	2022		2			1

*Became CEO 10/1/96.

19 MISCELLANEOUS MANUFACTURING (INDUSTRIAL: LOW TECH)

AVERY DENNISON	3222.5	C. D. Miller, chmn. & CEO	1877	8	4897	11524	261	3	17.9	82.5	3
	21.1	P. M. Neal, pres. & COO	1169	9	1628	5749		2			3
CORNING	3684.5	R. G. Ackerman, chmn. & CEO*	1505	59	3323	8639	176	3	15.1	NM	1
	35.5	V. C. Campbell, vice-chmn.	1184	50	2972	6825		4			2
*Became CEO 4/25/96.											
ILLINOIS TOOL WORKS	4996.7	W. J. Farrell, chmn. & CEO	954	39	23	3724	213	1	19.5	23.7	1
	20.3	F. S. Ptak, vice-chmn.	530	21	0	2955		1			2
JOHNSON CONTROLS	10584.4	J. H. Keyes, chmn. & CEO	1363	2	450	6207	169	2	14.3	29.9	3
	15.7	J. M. Barth, exec. v-p	701	4	834	3415		2			3
MINNESOTA MINING & MFG.	14236.0	L. D. DeSimone, chmn. & CEO	1533	15	2641	9748	174	3	20.9	24.4	3
	24.1	R. A. Mitsch, vice chmn. & exec. v-p	935	31	1303	4831		3			3
NEWELL	2872.8	W. P. Sovey, vice-chmn. & CEO	1284	8	0	3578	165	1	17.2	1.8	2
	17.2	T. A. Ferguson Jr., pres. & COO	966	8	0	3320		2			3
PARKER HANNIFIN	3851.9	D. E. Collins, pres. & CEO	1414	5	988	5420	164	2	13.3	133.1	2
	16.3	D. W. Sullivan, exec. v-p	856	-7	652	4093		2			3
RUBBERMAID	2355.0	W. R. Schmitt, chmn. & CEO	1354*	11	867	6557	69	4	12.7	-19.6	4
	15.0	C. A. Carroll, pres. & COO	741	19	542	3475		4			4

*Includes \$471,333 awarded for exceeding stock performance objectives.

20 NATURAL RESOURCES (RESOURCES)

AMERADA HESS	8929.7	J. B. Hess, chmn. & CEO	1000	11	0	3625	133	2	2.7	NM	1
	20.6	W. S. Laidlaw, pres. & COO	939	-40	0	4281		3			2
AMOCO	32150.0	H. L. Fuller, chmn. & CEO	1900	11	956	7208	170	3	14.1	29.7	3
	17.3	W. G. Lowrie, pres.	1187	58	0	2870		2			2
ANADARKO PETROLEUM	569.0	R. J. Allison Jr., chmn., pres. & CEO	2088	14	5985	11609	145	4	5.6	114.5	4
	9.9	J. N. Seitz, sr. v-p	490	16	11	1454		1			2
APACHE	877.2	R. Plank, chmn. & CEO	1156	38	578	3874	155	2	5.1	73.3	3
	8.2	G. S. Farris, pres. & COO	694	54	721	2307		2			3
ATLANTIC RICHFIELD	18592.0	M. R. Bowlin, chmn., pres. & CEO	2047	31	1027	6095	146	2	18.7	390.4	2
	21.3	R. J. Arnault, exec. v-p†	1197	3	1505	6964		4			3
BURLINGTON RESOURCES	1293.0	B. S. Shackouls, pres. & CEO	1219	40	5581	8454	124	4	1.4	11.7	5
	10.9	T. H. O'Leary, chmn.	1293	-9	7423	12204		5			5
CHEVRON	37580.0	K. T. Derr, chmn. & CEO	2354	37	1159	10296	168	3	11.6	84.6	3
	16.7	J. N. Sullivan, vice-chmn.	1225	31	636	5577		4			4
COASTAL	11894.6	D. A. Arledge, pres., CEO	1007	9	1119	3839	179	1	11.7	261.9	2
	17.0	O. S. Wyatt Jr., chmn.	1149	0	0	3347		2			2
ENRON OIL & GAS	710.3	F. E. Hoglund, chmn. & CEO	691	8	7232	29839	132	5	12.5	-25.2	5
	11.1	M. G. Papa, pres.	413	3	1076	2637		3			3
EXXON	116728.0	L. R. Raymond, chmn. & CEO	2820	13	7321	20682	176	5	15.5	14.4	4
	17.2	R. E. Wilhelm, sr. v-p	1166	10	1404	7862		4			4
KERR-McGEE	1931.1	F. A. McPherson, chmn. & CEO†	1498	4	878	4558	174	2	6.8	219.9	2
	16.3	L. R. Corbett, pres. & COO*	889	8	367	2503		2			2
*Became CEO 2/1/97.											
MOBIL	71129.0	L. A. Noto, chmn. & CEO	1573	-2	2023	9604	173	3	12.9	30.4	3
	15.5	P. J. Hoenmans, exec. v-p	1172	-6	2964	11497		5			5
OCCIDENTAL PETROLEUM	10557.0	R. R. Irani, chmn. & CEO	3987	6	2719	18854	158	5	8.3	1435.2	4
	15.9	D. R. Laurance, pres.	1560	8	223	5246		4			3
PHILLIPS PETROLEUM	15731.0	W. W. Allen, chmn. & CEO	1955	58	1617	7780	169	3	20.6	236.3	2
	30.7	J. J. Mulva, pres. & COO	1326	89	609	4051		3			1
TEXACO	45500.0	P. I. Bijur, chmn. & CEO*	1583	140	2941	6490	173	2	12.3	56.8	2
	19.9	A. J. Krowe, vice-chmn.	1479	19	5358	11027		5			4
*Became CEO 7/1/96.											
USX-MARATHON GROUP	13564.0	T. J. Usher, chmn. & CEO-USX Corp.	2055	30	58	6640	161	2	9.0	NM	2
	20.1	V. G. Beghini, vice-chmn.	1543	19	107	5007		3			3

21 NONBANK FINANCIAL (FINANCIAL SERVICES)

AETNA	15163.2	R. E. Compton, chmn. & CEO	2589	23	3183	13446	150	4	5.6	NM	3
	1.8	R. L. Huber, vice-chmn.	1533	22	3245	NA		NA			NA
AFLAC	7039.9	D. P. Amos, pres. & CEO	2101	18	6158	13706	234	3	17.2	3.9	3
	18.6	P. S. Amos, chmn.	2296	19	6328	14777		4			4
AHMANSON (H.F.)	3719.9	C. R. Rinehart, chmn. & CEO	1652	3	778	6977	187	2	7.8	NM	2
	4.1	K. M. Twomey, sr. exec. v-p & CFO	853	20	425	3261		2			2

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EXECUTIVE COMPENSATION SCOREBOARD

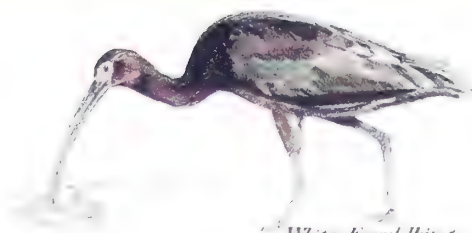
COMPANY	1996 SALES: \$ MILLIONS ROI %	EXECUTIVE	1996 COMPENSATION			1994-96 PAY-PERFORMANCE ANALYSIS					
			TOTAL ANNUAL COMP SALARY & BONUS \$000	% CHANGE FROM 1995	LONG- TERM COMP \$000	PAY VS. SHAREHOLDER RETURN TOTAL COMP \$000	\$ VALUE OF \$100 INVESTED	RATING	PAY VS. CORPORATE PROFIT ROE %	CHANGE IN ROE %	RATING
ALLSTATE	24299.0 16.3	J. D. Choate, chmn. & CEO E. M. Liddy, pres. & COO	1181 1003	-19 -20	0 0	3712 3209	211	[1] [2]	12.4	29.0	[1] [2]
AMERICAN EXPRESS	17280.0 22.3	H. Golub, chmn. & CEO K. I. Chenault, vice-chmn.	3127 1728	5 4	7198 3519	23095 11946	224	[4] [4]	21.2	19.5	[4] [3]
AMERICAN GENERAL	6847.0 10.4	H. S. Hook, chmn. R. M. Devlin, pres. & CEO*	2480 1365	27 59	562 123	10680 3263	160	[3] [2]	11.6	114.2	[3] [2]
		* Became CEO 10/24/96.									
AMERICAN INTERNATIONAL GROUP	25862.5 13.2	M. R. Greenberg, chmn. & CEO E. E. Matthews, vice-chmn.	4150 987	0 5	15852* 4607*	43066 11616	187	[5] [4]	13.0	4.6	[5] [4]
		* Includes long-term awards from a holding company.									
AON	3888.2 10.1	P. G. Ryan, chmn., pres. & CEO M. D. O'Halleran, pres. & COO-Aon Group	2756 1903	54 NA	0 1876	5934 NA	213	[2] NA	11.7	-21.2	[3] NA
BEAR STEARNS	5492.0 22.5	J. E. Cayne, pres. & CEO A. C. Greenberg, chmn.	9173 13240	117 127	8413 4347	40772 40499	161	[5] [5]	18.3	-8.8	[5] [5]
BERKSHIRE HATHAWAY	9545.7 11.7	W. E. Buffett, chmn. & CEO M. D. Hamburg, v-p & CFO	100 256	0 13	167* 0	904 689	209	[1] [1]	6.7	61.3	[1] [1]
		* Includes \$167,300 in director fees from non-subsidary.									
CHUBB	5668.1 8.9	D. R. O'Hare, chmn. & CEO P. Chubb III, vice-chmn.	2106 889	4 -5	1829 602	7991 3262	148	[3] [2]	11.5	8.5	[3] [2]
CIGNA	18950.0 14.7	W. H. Taylor, chmn. & CEO J. G. Stewart, exec. v-p & CFO	3518 1182	44 -9	7961 3599	18019 8198	243	[4] [3]	9.0	311.7	[4] [4]
CINCINNATI FINANCIAL	1808.7 7.1	R. B. Morgan, pres. & CEO J. J. Schiff Jr., chmn.	1119 574	15 12	0 335	3285 1954	144	[2] [1]	8.7	-31.9	[3] [3]
CNA FINANCIAL	16987.8 14.6	D. H. Chooskaszian, chmn. & CEO C. L. Murphy, sr. v-p	950 917	-40 19	1450 0	5235 2417	138	[3] [2]	8.9	190.0	[1] [1]
CONSECO	3035.0 8.9	S. C. Hilbert, chmn., pres. & CEO L. W. Inlow, exec. v-p	13962 4964	79 76	23450 7035	165223 37239	233	[5] [5]	21.0	-73.5	[5] [5]
		May contain data from a preliminary source.									
EQUIFAX	1811.0 41.8	D. W. McGlaughlin, pres. & CEO T. F. Chapman, exec. v-p	1252 838	137 113	1557 585	6443 3216	236	[2] [2]	38.9	67.2	[1] [1]
EQUITABLE	8304.9 5.2	J. J. Melone, CEO* J. M. Benson, sr. exec. v-p & COO	3075 2583	14 23	0 0	9842 7933	94	[4] [4]	8.0	-30.6	[4] [4]
		May contain data from a preliminary source. * Became CEO 2/1/96.									
FIRST USA	1745.1 22.4	J. C. Tolleson, chmn. & CEO R. W. Vague, pres.	1798 1423	38 58	10323 10174	16814 17252	196	[4] [5]	22.0	20.1	[3] [4]
FRANKLIN RESOURCES	1736.1 21.8	C. B. Johnson, pres. & CEO M. L. Flanagan, sr. v-p & CFO	945 2197	21 103	0 720	2467 6349	153	[1] [4]	24.0	-10.7	[1] [2]
GENERAL RE	8296.0 12.1	R. E. Ferguson, chmn. & CEO J. E. Gustafson, pres. & COO	1783* 1040*	16 10	2358 1060	10560 NA	154	[3] NA	12.6	-16.3	[4] NA
		* Excludes portion of bonus paid in restricted stock.									
GOLDEN WEST FINANCIAL	2620.1 15.7	M. O. Sandler, co-chmn. & co-CEO* H. M. Sandler, co-chmn. & co-CEO*	981 981	4 4	3479 2148	7552 10735	166	[3] [4]	12.5	18.7	[3] [4]
		* Both executives hold the title of CEO.									
GREEN TREE FINANCIAL	1275.9 24.8	L. M. Coss, chmn. & CEO R. D. Potts, pres. & COO	102449 1633	56 38	0 0	197007 3697	330	[5] [1]	25.7	17.0	[5] [1]
HOUSEHOLD INTERNATIONAL	5058.8 18.7	W. F. Aldinger, chmn. & CEO D. C. Clark, chmn.†	2344 1197*	26 -23	0 4357	6848 10300	306	[1] [3]	16.7	45.6	[2] [3]
		May contain data from a preliminary source. * Includes \$3.3 mil retirement pay.									
ITT HARTFORD GROUP	12473.0 -2.2	D. R. Frahm, chmn., pres. & CEO† L. A. Smith, exec. v-p†	1200 835	38 27	0 3	5163 3524	NA NA	NA NA	9.8	NA	NA NA
LOEWS	20085.6 16.5	L. A. Tisch, co-chmn. & co-CEO P. R. Tisch, co-chmn. & co-CEO	1828 2239	112 3	26 26	3369 6422	210	[1] [3]	14.3	70.4	[1] [3]
MARSH & McLENNAN	4149.0 26.4	A. J. Smith, chmn. & CEO L. J. Lasser, pres.-Putnam Investments	2425 10370	8 64	2232 1027	11485 33943	142	[4] [5]	25.6	8.5	[2] [4]
		May contain data from a preliminary source.									
MERRILL LYNCH	24856.0 25.5	D. P. Tully, chmn. & CEO† D. H. Komansky, pres. & COO*	7201 5701	40 42	6128 1250	25584 15762	206	[4] [4]	21.6	0.7	[4] [4]
		* Became CEO 12/28/96.									
MGIC INVESTMENT	749.7 18.9	W. H. Lacy, pres. & CEO C. S. Culver, exec v-p	902 517	2 28	2880 1010	7218 2832	263	[2] [1]	18.8	5.7	[2] [1]
MORGAN STANLEY GROUP	13144.0 17.9	R. B. Fisher, chmn. J. J. Mack, pres.	6331 6322	36 38	7602 11985	28486 30452	169	[5] [5]	12.9	-8.2	[5] [5]
PAINWEBBER GROUP	5706.0 21.3	D. B. Marron, chmn. & CEO J. J. Grano Jr., pres.	7013 5513	86 150	13313 2321	31621 13555	169	[5] [4]	8.9	4.7	[5] [4]
PROGRESSIVE	3317.5 18.3	P. B. Lewis, chmn., pres. & CEO C. B. Chokel, treas. & CFO	2272 819	32 40	0 164	6346 2683	169	[2] [2]	20.2	-35.6	[3] [2]
SAFECO	3965.4 10.7	R. H. Eigsti, chmn. & CEO B. A. Dickey, pres. & COO	733 501	3 17	743 446	3893 2362	159	[2] [2]	10.6	-30.5	[3] [3]
SCHWAB (CHARLES)	2276.8 28.7	C. R. Schwab, chmn. & CEO D. S. Pottruck, pres. & COO	10187 7131	8 8	0 0	22866 22026	304	[4] [4]	28.3	-12.4	[4] [4]



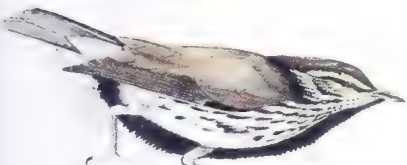
Bullock's Oriole to
GUATEMALA



American Kestrel to
PANAMA



White-Faced Ibis to
EL SALVADOR



Northern Waterthrush to
ECUADOR



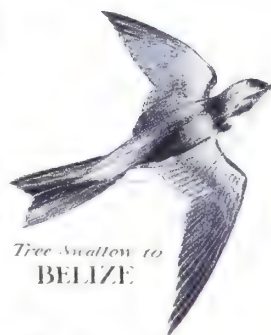
Western Kingbird to
COSTA RICA



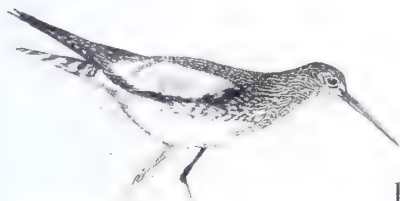
Scarlet Tanager to
COLOMBIA



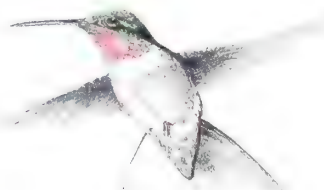
Green-Winged Teal to
MEXICO



Tree Swallow to
BELIZE



Solitary Sandpiper to
PERU



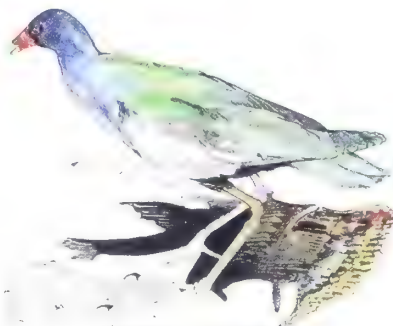
Ruby-Throated Hummingbird to
DOMINICAN REPUBLIC



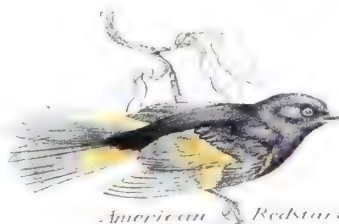
Warbling Vireo to
NICARAGUA



Cave Swallow to
PUERTO RICO



Purple Gallinule to
HONDURAS



American Redstart to
BRAZIL

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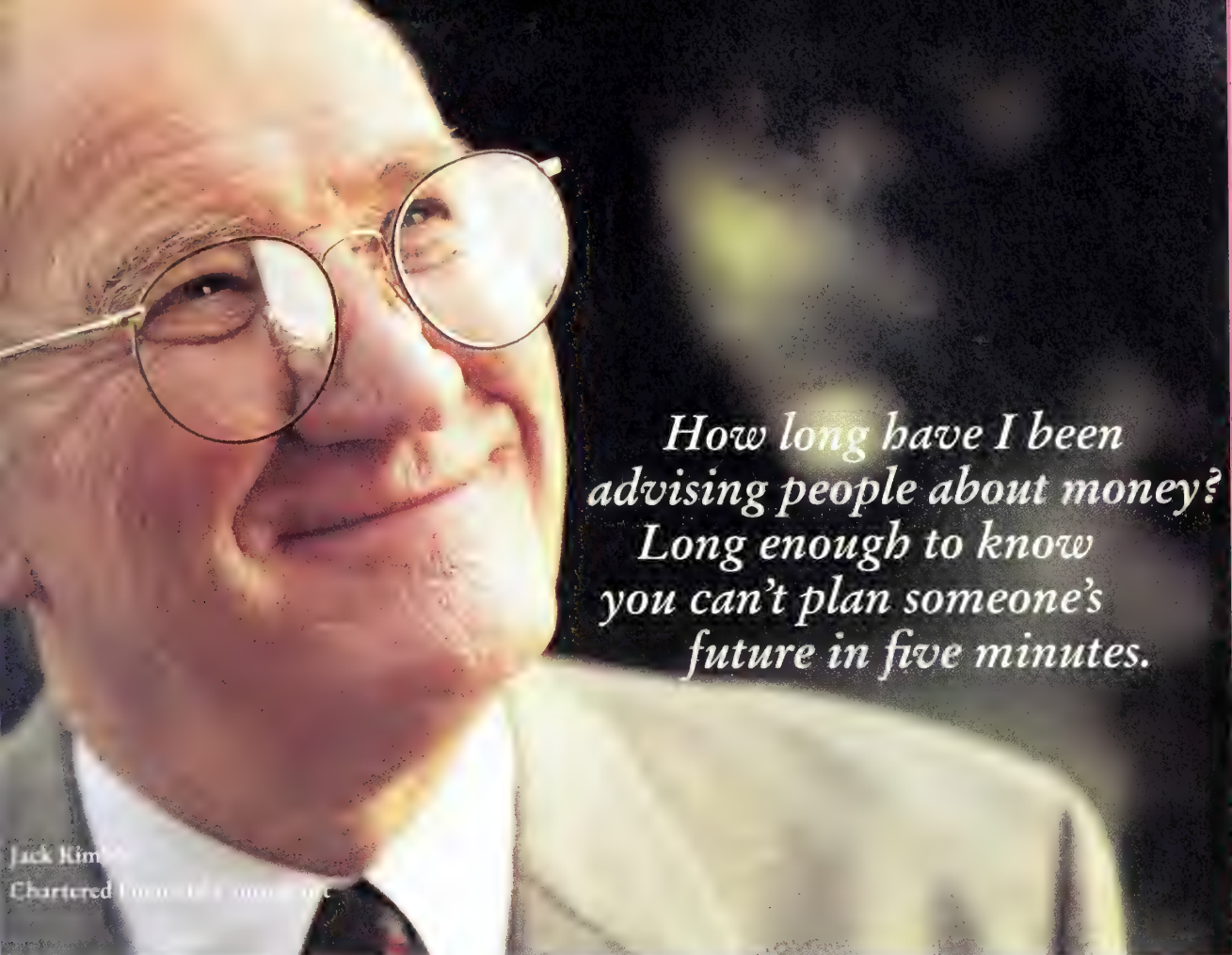
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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	1996 SALES: \$ MILLIONS ROE %	EXECUTIVE	1996 COMPENSATION			1994-96 PAY-PERFORMANCE ANALYSIS					
			TOTAL ANNUAL COMP SALARY & BONUS \$000	% CHANGE FROM 1995	LONG- TERM COMP \$000	PAY VS. SHAREHOLDER RETURN			PAY VS. CORPORATE PROFIT		
						TOTAL COMP \$000	\$ VALUE OF \$100 INVESTED	RATING	ROE %	CHANGE IN ROE %	RATING
ST. PAUL	5989.1 14.1	D. W. Leatherdale, chmn., pres. & CEO P. A. Thiele, exec. v-p	987 603	-28 -21	204 57	4487 2862	144	[2] [2]	14.6	0.8	[2] [2]
SUNAMERICA	1598.0 19.4	E. Broad, pres. & CEO M. Fowler, v-p	3023 2926	36 -4	9376 0	26876 8464	320	[4] [3]	19.9	31.0	[4] [3]
TORCHMARK	2186.0 20.2	R. K. Richey, chmn. & CEO C. B. Hudson, chmn. & CEO-sub.	1482 835	-20 -7	0 0	5267 2948	123	[3] [3]	19.6	3.5	[1] [2]
TRANSAMERICA	6227.6 11.5	F. C. Herringer, chmn., pres. & CEO R. H. Finn, exec. v-p	1731 970	3 -4	1890 644	7499 4119	153	[3] [3]	13.1	-21.0	[3] [3]
TRAVELERS GROUP	21345.4 19.0	S. I. Weill, chmn. & CEO J. Dimon, pres. & COO	6330 4501	13 26	87828 14758	156166 33557	246	[5] [5]	16.3	75.3	[5] [5]
TRAVELERS PROPERTY CASUALTY	8197.8 6.4	R. I. Lipp, chmn., pres. & CEO*† J. S. Fishman, vice-chmn.†	3290 1249	19 17	10109 2564	NA NA	NA NA	NA NA	NA	NA	NA NA
*Became CEO 1/1/96											
UNUM	4043.5 10.4	J. F. Orr III, chmn. & CEO R. W. Crispin, exec. v-p	1480 863	57 18	913 708	4798 NA	146	[2] NA	10.2	-29.8	[3] NA
May contain data from a preliminary source.											
WASHINGTON MUTUAL	3346.5 4.0	K. K. Killinger, chmn., pres. & CEO C. E. Tall, exec. v-p	933 390	17 14	120 35	2745 1119	198	[1] [1]	8.9	-70.6	[5] [5]

22 OFFICE EQUIPMENT & COMPUTERS (INDUSTRIAL: HIGH TECH)

AMERICA ONLINE	1406.2 -1230.4	S. M. Case, chmn., pres. & CEO T. J. Leonsis, sr. v-p	200 205	0 8	27439 3704	33460 NA	455	[3] NA	-413.2	NM	[5] NA
AUTOMATIC DATA PROCESSING	3906.1 19.2	J. S. Weston, chmn. & CEO A. F. Weinbach, pres. & COO*	1234 710	3 4	3948 1101	16235 5786	160	[4] [3]	19.3	-2.5	[3] [3]
*Became CEO 8/1/96.											
BAY NETWORKS	2094.5 -7.4	A. K. Ludwick, pres. & CEO R. V. Schmidt, exec. v-p†	609 522	38 20	0 11188	1512 12619	98	[1] [5]	14.0	NM	[5] [5]
CISCO SYSTEMS	5406.4 29.1	J. T. Chambers, pres. & CEO D. A. LeBeau, sr. v-p	619 514	57 49	32594 12404	57122 21361	394	[5] [4]	32.2	-19.6	[4] [3]
COMPAQ COMPUTER	18109.0 21.4	E. Pfeiffer, pres. & CEO J. T. Rose, sr. v-p†	4250 1005	17 19	23546 2420	58606 5012	302	[5] [1]	20.7	22.8	[4] [2]
COMPUTER ASSOCIATES INTERNATIONAL	3945.4 19.5	C. B. Wang, chmn. & CEO S. Kumar, pres. & COO	6000 3900	7 18	5012 12613	26402 27738	282	[4] [5]	14.4	-39.5	[4] [4]
DIGITAL EQUIPMENT	13609.7 -10.5	R. B. Palmer, chmn., pres. & CEO E. Pesatori, v-p	900 682	-29 -24	366* 612	3840 3390	106	[2] [3]	-24.8	NM	[5] [5]
*Includes 185,000 options granted after fiscal year end.											
EMC	2273.7 23.6	M. C. Ruettgers, pres. & CEO R. T. O'Connell, sr. v-p†	1059 695	65 217	4488 0	18348 NA	201	[4] NA	28.9	-22.2	[3] NA
May contain data from a preliminary source.											
FIRST DATA	4934.1 17.2	H. C. Duques, chmn. & CEO C. T. Fote, exec. v-p	612 520	22 14	3316 0	4849 1234	180	[2] [1]	11.7	-5.4	[2] [2]
HEWLETT-PACKARD	39427.0 19.2	L. E. Platt, chmn., pres. & CEO R. P. Wayman, exec. v-p & CFO	1822 939	19 16	4899 2749	13696 7597	263	[3] [3]	18.6	38.8	[3] [3]
IBM	75947.0 25.6	L. V. Gerstner Jr., chmn. & CEO G. R. Thoman, sr. v-p & CFO†	4770 1181	0 5	5562 2287	35912 7011	278	[4] [2]	19.1	NM	[2] [1]
MICROSOFT	9435.0 28.6	W. H. Gates III, chmn. & CEO R. J. Herbold, exec. v-p & COO	563 1080*	35 46	0 0	1436 NA	410	[1] NA	27.2	-2.8	[1] NA
*Includes \$250,000 payment related to joining the company											
NCR	6963.0 -7.8	L. Nyberg, chmn., pres. & CEO† J. L. Giering, sr. v-p & CFO†	1561 580	33 42	3568* 5117**	NA 7176	NA NA	NA NA	NA	NA	NA NA
*Includes \$1.9 mil payment & \$375,000 signing bonus. Includes AT&T compensation. **Includes \$2.3 mil payment & \$727,648 tax reimbursement. Includes AT&T compensation.											
NOVELL	1311.8 6.8	R. J. Frankenberg, chmn., pres. & CEO* J. A. Marengi, pres. & COO	641 598	-21 8	0 363	2901 2472	46	[3] [4]	12.7	NM	[1] [1]
Resigned 8/29/96											
ORACLE	4848.0 33.0	L. J. Ellison, chmn., pres. & CEO R. J. Lane, exec. v-p	2331 1525	-30 -28	16743 18390	35627 29202	327	[4] [4]	33.9	-13.9	[3] [3]
PARAMETRIC TECHNOLOGY	658.2 28.6	S. C. Walske, chmn. & CEO C. R. Harrison, pres. & COO	1030 975	29 30	19663 12540	35789 24621	265	[5] [4]	25.7	-2.2	[3] [4]
PAYCHEX	506.4 28.7	B. T. Golisano, chmn., pres. & CEO J. T. Carlen, exec. v-p	537 311	7 10	0 0	1475 803	338	[1] [1]	28.0	11.1	[1] [1]
PITNEY BOWES	3858.6 21.0	G. B. Harvey, chmn.† M. J. Critelli, vice-chmn. & CEO*	2104 1323	10 26	1264 1025	12884 4636	144	[3] [3]	20.2	11.0	[3] [2]
*Became CEO 5/13/96											
SEAGATE TECHNOLOGY	8568.8 8.1	A. F. Shugart, chmn., pres., & CEO B. C. Hegarty, exec. v-p	1440 1131	-4 9	14995 4785	28278 12012	333	[3] [3]	14.0	-56.5	[4] [4]
SILICON GRAPHICS	3245.2 -1.8	E. R. McCracken, chmn. & CEO T. A. Jermoluk, pres. & COO	798 722	-45 -42	0 0*	3500 9528	103	[2] [2]	10.3	NM	[5] [4]
*Option grants expired three months after 8/96 resignation.											
SUN MICROSYSTEMS	7798.7 24.6	S. G. McNealy, chmn., pres. & CEO E. J. Zander, pres.-sub.	2298 800	-23 -11	4903 4578	12561 7681	353	[2] [2]	17.8	158.1	[2] [2]



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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	1996 SALES \$ MILLIONS ROE: %	EXECUTIVE	1996 COMPENSATION			1994-96 PAY-PERFORMANCE ANALYSIS					
			TOTAL ANNUAL COMP SALARY & BONUS \$000	% CHANGE FROM 1995	LONG TERM COMP. \$000	PAY VS. SHAREHOLDER RETURN			PAY VS. CORPORATE PROFIT		
						TOTAL COMP \$000	\$ VALUE OF \$100 INVESTED	RATING	ROE %	CHANGE IN ROE %	RATING
AL SYSTEM ICES	2796.7	E. A. Benhamou, pres. & CEO	624	20	11386	20416	624	2	22.9	NM	2
	23.6	R. J. Finocchio Jr., exec. v-p	418	12	3666	15522		2			2
OIL SERVICE SUPPLY	311.6	R. W. Ussery, chmn. & CEO	883	65	316	2454	415	1	19.8	11.5	1
	22.0	P. W. Tomlinson, pres.	721	62	224	1954		1			1
OIL SERVICE & SUPPLY (RESOURCES)											
R HUGHES	3141.7	J. D. Woods, chmn. & CEO†	1714	10	3980	10090	183	3	8.7	286.6	3
	11.3	M. L. Lukens, pres. & COO* *Became CEO 10/1/96.	1159	28	856	5279		3			4
OND OFFSHORE LING	611.4	R. E. Rose, pres. & CEO‡	798	29	0	1781	NA	NA	-5.7	NA	NA
	12.3	L. R. Dickerson, sr. v-p & CFO‡	335	13	0	800		NA			NA
O INTERNATIONAL	468.8	C. F. Thorne, pres. & CEO	814	45	0	2450	359	1	8.8	247.8	2
	11.3	R. A. Wilson, sr. v-p & COO	400	57	188	1797		1			2
AL MARINE	680.7	C. R. Luigs, chmn., pres. & CEO	750	7	1556	4851	500	1	20.3	NM	1
	39.2	J. G. Ryan, secy.	412	16	2397	4866		1			1
BURTON	7241.2	R. B. Cheney, chmn., pres. & CEO	2125	431	0	NA	212	NA	13.0	NM	NA
	16.3	D. P. Jones, vice-chmn. May contain data from a preliminary source.	1040	0	358	3188		2			1
UMBERGER	8956.1	D. E. Baird, chmn. & CEO	2200	5	10225	17713	180	4	13.3	14.4	4
	15.1	V. E. Grijalva, exec. v-p	1025	4	1059	4478		3			4
TERN ATLAS	2582.8	A. J. Brann, chmn. & CEO	1615	22	510	7488	NA	NA	7.3	9.3	4
	8.4	J. R. Russell, exec. v-p	864	1	123	4542		NA			4
PAPER & FOREST PRODUCTS (RESOURCES)											
GIA-PACIFIC	13024.0	A. D. Correll, chmn., pres. & CEO	1259	-49	0	7878	113	4	15.3	NM	3
	4.6	D. K. Mortensen, exec. v-p	800	-21	0	4937		4			3
RNATIONAL R	20099.0	J. T. Dillon, CEO*	713	-35	4681	10223	128	4	8.2	-30.7	5
	3.2	J. P. Melican, exec. v-p *Became CEO 4/1/96.	472	-45	486	4210		3			5
ERLY-CLARK	13149.1	W. R. Sanders, chmn. & CEO	1697	3	5997	10962	205	3	17.6	50.6	3
	31.3	T. J. Falk, group pres.	745	25	421	2243		1			1
ERHAEUSER	11114.0	J. W. Creighton Jr., pres. & CEO	1251	-20	527	5517	117	3	13.9	-24.4	3
	10.1	R. C. Gozon, exec. v-p‡	539	-26	0	1576		2			2
AMETTE STRIES	3425.2	S. R. Rogel, pres. & CEO	783	26	120	2269	149	1	16.8	10.5	1
	9.7	W. P. Kinnune, exec. v-p	429	4	65	2880		3			3
PERSONAL-CARE PRODUCTS (CONSUMER PRODUCTS)											
I PRODUCTS	4814.2	J. E. Preston, chmn. & CEO	1172	18	4694	7907	257	2	140.9	65.5	1
	131.5	E. J. Robinson, pres. & COO	1285	28	2200	5527		2			1
OX	2353.6	G. C. Sullivan, chmn. & CEO	1245	8	224	5213	203	2	21.5	23.1	2
	23.5	N. P. DeFeo, group v-p* *Left company 7/1/96.	674	0	9	2599		1			2
ATE-PALMOLIVE	8749.0	R. Mark, chmn. & CEO	2677	35	3842	37358	160	5	23.5	7.2	4
	30.5	W. S. Shanahan, pres. & COO	1576	34	1054	12155		4			4
E LAUDER	3314.9	L. A. Lauder, chmn. & CEO‡	3301	43	0	NA	NA	NA	NA	NA	NA
	31.8	F. H. Langhammer, pres. & COO‡	3000	-33	1501	NA		NA			NA
ETTE	9697.7	A. M. Zeien, chmn. & CEO	2975	23	3607	16573	271	3	30.0	-27.5	3
	21.4	M. C. Hawley, pres. & COO	1142	26	1012	4934		2			3
STER & GAMBLE	35212.0	J. E. Pepper, chmn. & CEO*	1110*	16	2364	8756	201	3	24.9	1035.1	2
	25.9	H. Einsmann, exec. v-p *Became CEO 7/1/95. Excludes bonus paid in restricted stock & options granted in '96 & '97. **Excludes \$297,000 bonus paid in form of options.	1495**	-9	300	5402		3			2
PUBLISHING, RADIO & TV BROADCAST (SERVICE)											
R CHANNEL MUNICATIONS	351.7	L. L. Mays, chmn. & CEO	2602	24	0	6277	393	1	14.6	-20.9	3
	7.3	M. P. Mays, pres. & COO‡	346	102	0	681		1			1
MUNICATIONS	1460.3	J. O. Robbins, pres. & CEO	600*	-20	514	3991	NA	NA	1.8	-121.2	5
	-2.3	B. R. Elson, exec. v-p** *Excludes bonus paid in restricted stock in 1997. **Resigned 12/31/96.	502	6	0	1653		NA			5
JONES	2481.6	P. R. Kann, chmn. & CEO	1095	-3	259	5157	102	3	11.8	14.2	3
	11.3	K. L. Burenga, pres. & COO	820	-1	211	3769		3			3
& BRADSTREET	2252.3	R. E. Weissman, chmn. & CEO*	2608	60	4432	13370	114	4	31.2	-51.8	3
	18.6	V. Taylor, chmn. & CEO** *Resigned 11/1/96. **Became CEO 11/1/96.	1463	83	2115	6619		5			3
NETT	4421.1	J. J. Curley, chmn., pres. & CEO	1754	6	2461	8634	140	4	23.0	2.1	3
	21.3	D. H. McCorkindale, vice-chmn. & CFO	1540	7	1024	5815		4			3
HT-RIDDER	2774.8	P. A. Ridder, chmn. & CEO	1403	76	692	4294	137	2	17.6	98.7	1
	23.7	J. C. Fontaine, pres.	942	53	289	2540		2			2
RAW-HILL	3074.7	J. L. Dionne, chmn. & CEO	1913	20	1473	9043	150	4	26.9	2522.6	1
	36.4	H. W. McGraw III, pres. & COO	1171	19	800	5152		3			1
ER'S DIGEST OCIATION	2967.6	J. P. Schadt, chmn. & CEO	1490	-3	0	5522	100	3	29.8	-66.9	3
	11.0	K. A. Gordon, pres. & COO†	921	20	0	2897		3			3

EXECUTIVE COMPENSATION SCOREBOARD

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						TOTAL COMP \$000	\$ VALUE OF \$100 INVESTED	RATING	ROE %	CHANGE IN ROE %	RATING
TIME WARNER	10064.0 -11.7	G. M. Levin, chmn. & CEO R. D. Parsons, pres.	5260 2999	1 3	1004 0	16648 NA	87 NA	[5] NA	-8.5	NM	[4] NA
TIMES MIRROR	3401.0 17.6	M. H. Willes, chmn., pres. & CEO R. T. Schlosberg III, exec. v-p	2151 1201	130 30	1181 881	NA 4195	231 138	NA [2]	-3.5	104.3	NA [4]
TRIBUNE	2405.7 20.4	J. W. Madigan, chmn., pres. & CEO J. C. Dowdle, exec. v-p	1454 930	21 8	4094 3554	11436 9918	138	[4] [5]	18.5	24.9	[3] [4]
WASHINGTON POST	1853.4 16.6	D. E. Graham, chmn. & CEO A. G. Spoon, pres. & COO	400 846	0 2	0 0	1784 3067	138	[1] [3]	15.9	17.6	[1] [2]

27 RAILROADS (TRANSPORTATION)

BURLINGTON NORTHERN	8187.0	R. D. Krebs, pres. & CEO†	560*	-29	5075	14427	158	[3]	13.2	-14.2	[4]
SANTA FE	14.9	D. G. McInnes, sr. v-p & COO†	648**	56	2770	5767		[4]			[4]
*Excludes bonus paid in restricted stock. Excludes portion of salary paid in options. **Excludes portion of salary paid in options.											
CONRAIL	3714.0 10.4	D. M. LeVan, chmn., pres. & CEO R. J. Conway, sr. v-p†	595 257	10 -21	0 0	2253 865	161	[1] [1]	9.7	33.9	[2] [2]
CSX	10536.0 17.1	J. W. Snow, chmn., pres. & CEO J. P. Clancey, pres. & CEO-Sea-Land	1321 1006	-5 39	4336 554	13883 4736	110	[4] [4]	16.4	51.6	[3] [3]
NORFOLK SOUTHERN	4770.0 15.5	D. R. Goode, chmn., pres. & CEO D. H. Watts, vice-chmn.	1870 1077	-29 -16	0* 0*	8507 4257	136	[3] [3]	14.8	30.3	[2] [3]
†1996 performance share awards not yet reported.											
UNION PACIFIC	8786.0 8.9	D. Lewis, chmn. & CEO† R. K. Davidson, pres. & COO	3131 1863	16 17	18320* 79	26684 6846	150	[5] [5]	12.4	-38.2	[5] [5]
*Includes \$4 mil performance award related to Southern Pacific merger.											

28 RETAILING (FOOD)

ALBERTSON'S	13776.7 22.0	G. G. Michael, chmn. & CEO R. L. King, pres. & COO†	1093 563	8 68	906 0	5173 1159	140	[3] [1]	23.5	-10.1	[2] [1]
SAFEWAY	17269.0 40.5	S. A. Burd, pres. & CEO K. W. Oder, exec. v-p	1365 850	1 -4	3864 0	7848 2601	402	[2] [1]	40.2	25.9	[2] [1]
WINN-DIXIE STORES	13090.8 17.5	A. D. Davis, chmn. & CEO J. Kufeldt, pres.	754 754	5 5	0 316	2189 2994	128	[1] [3]	18.9	-26.9	[2] [2]

29 RETAILING (NONFOOD)

AUTOZONE	2348.7 18.8	J. R. Hyde III, chmn. & CEO T. S. Hanemann, pres.†	1133 613	8 0	0 0	3349 1857	96	[2] [2]	20.4	-14.3	[2] [2]
CARDINAL HEALTH	9694.0 12.0	R. D. Walter, chmn. & CEO J. C. Kane, pres. & COO	930 705	-1 -3	0 0	3192 2447	232	[1] [2]	12.2	NA	NA NA
COSTCO	20066.3 12.6	J. D. Sinegal, pres. & CEO J. H. Brotman, chmn.	450 450	47 47	0 0	1056 1056	131	[1] [1]	11.1	1.6	[1] [2]
LOWE'S	8600.2 13.5	L. G. Herring, pres & CEO† R. L. Strickland, chmn.	1444 1304	64 58	18 432	4776 5268	122	[3] [4]	14.3	-10.8	[3] [3]
May contain data from a preliminary source.											
NORDSTROM	4579.4 10.1	J. J. Whitacre, chmn. J. F. Irving, exec. v-p	371 404	7 14	38 81	1386 1453	111	[1] [2]	12.3	-16.2	[1] [2]
SEARS, ROEBUCK	38236.0 25.1	A. C. Martinez, chmn., pres. & CEO R. L. Mettler, pres.-merchandising	3414 1551	55 65	0 364	10724	183	[4]	20.9	7.0	[3]
WALGREEN	12139.6 18.4	C. R. Walgreen III, chmn. & CEO L. D. Jorndt, pres. & COO	1490 1004	5 -3	480 351	5380 3799	206	[2] [2]	18.1	3.4	[2] [2]

30 SERVICE INDUSTRIES (SERVICE)

BROWNING-FERRIS INDUSTRIES	5843.6 -3.9	B. E. Ranck, pres. & CEO* N. A. Myers, vice-chmn.	600 508	-41 -29	0 0	2929 2749	109	[2] [3]	7.3	NM	[5] [5]
*Became CEO 10/1/95.											
COLUMBIA/HCA HEALTHCARE	19909.0 18.3	R. L. Scott, chmn. & CEO D. T. Vandewater, pres. & COO	900 791	-26 -12	960 1535	5171 7655	186	[2] [4]	16.0	10.6	[2] [3]
DONNELLEY (R.R.) & SONS	6599.0 -9.7	J. R. Walter, chmn. & CEO* J. P. Ward, exec. v-p	1040 442	-30 -24	2795 207	10449 2768	107	[4] [3]	5.9	NM	[5] [5]
*Resigned 10/23/96											
ENRON	13289.1 16.4	K. L. Lay, chmn. & CEO R. D. Kinder, pres. & COO	2889 2458	9 34	4409 35238*	25446 44604	160	[5] [5]	16.4	28.9	[4] [4]
*Includes \$3.8 mil loan forgiveness & \$1.1 mil severance payment. Resigned 12/31/96.											
FEDERAL EXPRESS	10817.9 11.2	F. W. Smith, chmn., pres. & CEO T. L. Weise, exec. v-p	878 1462*	-33 120	1200 1788	4594 5282	126	[3] [4]	12.1	5.5	[2] [3]
*Includes \$974,734 for tax reimbursement.											
FLUOR	12046.8 15.8	L. G. McCraw, chmn. & CEO H. K. Coble, vice-chmn.	2024 859	15 8	1368 1577	8003 5244	160	[3] [3]	15.9	-1.0	[3] [3]
GENUINE PARTS	5720.5 19.1	L. L. Prince, chmn. & CEO T. C. Gallagher, pres. & COO	1121 786	11 11	792 555	4736 3209	130	[2] [3]	18.9	6.4	[2] [2]
GRAINGER (W.W.)	3537.2 16.1	R. L. Keyser, pres. & CEO J. D. Fluno, vice-chmn.	1164 979	-2 -3	4208 3040	7706 7943	145	[3] [4]	14.8	1.6	[3] [4]

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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	1996 SALES: \$ MILLIONS ROE %	EXECUTIVE	1996 COMPENSATION			1994-96 PAY-PERFORMANCE ANALYSIS					
			TOTAL ANNUAL COMP SALARY & BONUS \$000	% CHANGE FROM 1995	LONG- TERM COMP. \$000	PAY VS. SHAREHOLDER RETURN			PAY VS. CORPORATE PROFIT		
						TOTAL COMP \$000	\$ VALUE OF \$100 INVESTED	RATING	ROE %	CHANGE IN ROE %	RAT
HEALTHSOUTH	2436.5 15.8	R. M. Scrushy, chmn. & CEO J. P. Bennett, pres. & COO	11380 1285	69 32	16197 1210	38174 4526	306	[5] [2]	12.3	597.1	[2] [2]
HFS	799.0 8.9	H. R. Silverman, chmn. & CEO J. D. Snodgrass, vice-chmn., pres. & COO	3752 1129	162 3	19990 0	26547 3333	483	[3] [1]	14.1	-30.6	[2] [2]
HUMANA	6788.0 0.9	D. A. Jones, chmn. & CEO G. H. Wolf, pres. & COO†	1122 894	-27 1585	0 100	5285 NA	107	[3] NA	10.8	-90.7	[2] N.
MANPOWER	5856.9 26.9	M. S. Fromstein, chmn., pres. & CEO J. F. Chait, exec. v-p, CFO, secy.	4079 1215	9 14	0 0	10415 3071	187	[3] [2]	32.1	NM	[2] [2]
OXFORD HEALTH PLANS	3075.2 16.7	S. F. Wiggins, chmn. & CEO† W. M. Sullivan, pres. & COO†	1738 542	115 59	27270 7279	32455 9047	442	[4] [3]	20.8	1.7	[2] [2]
May contain data from a preliminary source.											
REPUBLIC INDUSTRIES	2365.5 -2.2	S. R. Berrard, pres. & co-CEO* H. W. Hudson, vice-chmn.	2 277	NA 147	0 0	NA NA	2177	NA NA	4.3	NM	N. N.
May contain data from a preliminary source. *Joined company 5/1/96.											
TENET HEALTHCARE	5818.9 8.6	J. C. Barbakow, chmn. & CEO M. H. Focht, pres. & COO	2173 1402	36 39	0 3779	5626 8771	156	[2] [4]	11.2	-47.2	[2] [2]
UNITED HEALTHCARE	10073.8 8.8	W. W. McGuire, CEO T. H. Wills, COO	1151 475	-37 -24	0 0	16693 5712	119	[5] [4]	9.3	-56.6	[2] [2]
WMX TECHNOLOGIES	9187.0 9.1	P. B. Rooney, pres. & CEO* D. L. Buntrock, chmn. & acting CEO	1810 1339	-25 -63	0 1395	6242 8961	131	[3] [5]	13.2	-16.8	[2] [2]
*Became CEO 6/1/96 and resigned 2/18/97.											
31 STEEL (INDUSTRIAL: LOW TECH)											
NUCOR	3647.0 16.2	J. D. Correnti, vice-chmn, pres. & CEO* F. K. Iverson, chmn.	689 819	-21 -30	303 360	3873 5068	98	[3] [4]	18.8	18.5	[2] [2]
*Became CEO 1/1/96.											
32 TELECOMMUNICATIONS (TELECOMMUNICATIONS)											
ADC TELECOMMUNICATIONS	922.2 12.9	W. J. Cadogan, chmn., pres., CEO & COO L. J. Davis, sr. v-p	708* 369*	-11 -11	3519 3107	8863 4318	349	[1] [2]	13.0	-9.8	[2] [2]
*Excludes portion of bonus paid respectively in 183,755 and 93,287 stock options.											
ALLTEL	3192.4 13.9	J. T. Ford, chmn. & CEO S. T. Ford, exec. v-p	1333 700	8 NA	390 0	4804 NA	118	[2] NA	16.3	-17.4	[2] N.
AMERITECH	14917.0 27.8	R. C. Notebaert, chmn., pres. & CEO W. P. Campbell, exec. v-p	2004 808	2 9	693 0	6913 3352	180	[2] [2]	25.2	44.0	[2] [2]
AT&T	52184.0 26.6	R. E. Allen, chmn. & CEO L. Nyberg, chmn. & CEO-NCR†	3222 1561	-1 33	3521 2863*	18272 NA	127	[5] NA	17.9	-7.2	[2] N.
*Includes \$1.9 mil cash payment in lieu of pension benefits. Compensation also listed under NCR.											
BELL ATLANTIC	13081.4 23.9	R. W. Smith, chmn. & CEO J. G. Cullen, vice-chmn.	2105 1358	10 43	0 263	6293 3789	126	[3] [2]	24.9	32.4	[2] [2]
BELLSOUTH	19040.0 21.6	J. L. Clendenin, chmn., pres. & CEO F. D. Ackerman, vice-chmn. & COO*	1909 1414	22 37	2493** 750	10511 5376	158	[3] [3]	16.6	182.0	[2] [2]
*Became CEO 12/31/96. **Includes \$2.1 mil cash payment related to retirement.											
CINCINNATI BELL	1573.7 29.2	J. T. LaMacchia, pres. & CEO J. F. Orr, COO†	998 720	-3 193	761 340	3784 2153	374	[1] [1]	12.5	NM	[2] [2]
FRONTIER	2575.6 20.4	R. L. Bittner, chmn. & CEO L. L. Massaro, exec. v-p	700 285	-43 -38	0 0	3120 1185	111	[2] [2]	16.7	63.0	[2] [2]
GTE	21339.0 40.2	C. R. Lee, chmn. & CEO K. B. Foster, pres.	2528 1825	10 6	3292 1955	12538 8268	151	[4] [4]	33.5	292.3	[2] [2]
LUCENT TECHNOLOGIES	23797.0 30.8	H. B. Schacht, chmn. & CEO* R. A. McGinn, pres. & COO†	620** 1065**	NA 1	1301** 1105**	NA 5026	NA	NA NA	NA	NA	N. N.
*Became CEO 2/1/96. **Represents nine-months' compensation—has new fiscal year after spin-off.											
MCI COMMUNICATIONS	18494.0 11.3	G. H. Taylor, CEO B. C. Roberts Jr., chmn.	565 960	-60 -60	5185 7205	8964 13302	116	[4] [5]	8.6	-15.1	[2] [2]
NYNEX	13508.8 19.9	I. G. Seidenberg, chmn. & CEO F. V. Salerno, vice-chmn.	1799 1176	17 -8	1624 340	6701 4531	140	[3] [3]	15.6	NM	[2] [2]
PACIFIC TELESIS GROUP	9594.0 40.3	P. J. Quigley, chmn., pres. & CEO D. W. Dorman, chmn., pres. & CEO-sub.	2007 1077	42 -1	526* 312	6114 4735	138	[2] [3]	36.6	1542.7	[2] [2]
*Excludes \$497,824 on exercise of AirTouch stock options.											
SBC COMMUNICATIONS	13898.0 30.7	E. E. Whitacre Jr., chmn. & CEO R. S. Caldwell, pres.-sub.	3659 1381	40 50	2877 615	15508 4506	139	[5] [3]	26.9	63.0	[2] [2]
SPRINT	14044.7 14.0	W. T. Esrey, chmn. & CEO R. T. LeMay, pres. & COO	3344 2456	115 154	1515 2897	11099 8235	150	[4] [4]	17.9	14.5	[2] [2]
TELLABS	869.0 20.0	M. J. Birck, pres. & CEO B. J. Jackman, pres.-sub.	573 398	12 11	0 2444	3369 5308	637	[1] [1]	23.8	35.6	[2] [2]
U.S. ROBOTICS	2258.1 25.8	C. G. Cowell, chmn., pres. & CEO J. McCartney, pres. & COO	3430 2245	23 29	30522 19883	53977 45632	832	[3] [4]	20.0	60.7	[2] [2]
US WEST (CONSOLIDATED)	12911.0 10.7	R. D. McCormick, chmn., pres. & CEO C. M. Lillis, exec. v-p; pres. & CEO-Media	1879 1008	52 16	2101 0	8584 4859	NA	NA NA	15.6	31.5	[2] [2]

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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	1996 SALES \$ MILLIONS ROE %	EXECUTIVE	1996 COMPENSATION			1994-96 PAY-PERFORMANCE ANALYSIS					
			TOTAL ANNUAL COMP SALARY & BONUS \$000	% CHANGE FROM 1995	LONG- TERM COMP \$000	PAY VS. SHAREHOLDER RETURN			PAY VS. CORPORATE PROFIT		
						TOTAL COMP \$000	\$ VALUE OF \$100 INVESTED	RATING	ROE %	CHANGE IN ROE %	RATN
WORLD COM	4485.1 -16.9	B. J. Ebberts, pres. & CEO J. Q. Crowe, CEO-MFS Commun.	3273* 1497	10 NA	0 34280	14267 NA	216	3 NA	-4.5	NM	5 NA
*Includes \$1,687,500 & \$650,000 paid under performance bonus plans.											
33 TEXTILES, APPAREL (CONSUMER PRODUCTS)											
LIZ CLAIBORNE	2217.5 15.8	P. R. Charron, chmn. & CEO D. V. Seegal, pres.	2170 996*	-3 NA	0 438	9517 NA	180	3 NA	12.3	23.2	3 NA
*Includes \$218,750 in connection with employment agreement.											
NIKE	7892.3 24.6	P. H. Knight, chmn. & CEO T. E. Clarke, pres. & COO	1855 1275	12 12	0 2102	4475 5287	535	1 1	22.6	43.3	1 3
VF	5137.2 15.0	M. J. McDonald, pres. & CEO* J. P. Schamberger, vice-chmn.†	2237 990	150 29	439 137	5128 2658	158	2 2	13.1	-4.9	3 3
*Became CEO 1/1/96.											
34 TIRE & RUBBER (INDUSTRIAL: LOW TECH)											
GOODYEAR TIRE & RUBBER	13112.8 3.1	S. F. Gibara, chmn., pres. & CEO* S. C. Gault, chmn. & CEO†	1580 1309	84 -41	814 8813	4384 29876	120	2 5	14.0	-85.4	5 5
*Became CEO 1/1/96.											
35 TOBACCO (CONSUMER PRODUCTS)											
AMERICAN BRANDS	5776.3 13.5	T. C. Hays, chmn. & CEO J. T. Ludes, pres. & COO	2367* 1323*	23 21	1526 226	7604 3714	174	3 2	15.5	-13.8	3 3
*Includes \$522,168 and \$294,839 (respectively) for tax reimbursement related to funding retirement benefits.											
PHILIP MORRIS	54553.0 44.3	G. C. Bible, chmn. & CEO M. H. Bring, exec. v-p	2852 1517	14 17	5700 957	18513 9402	235	4 4	40.2	44.5	3 3
RJR NABISCO HOLDINGS	17063.0 5.9	S. F. Goldstone, chmn. & CEO H. J. Greeniaus, chmn. & CEO-sub.	6772 1965	388 -43	0 661*	NA 10737	119	NA 5	5.9	NM	NA 4
*Compensation also listed under Nabisco Holdings.											
UST	1396.8 164.5	V. A. Gierer Jr., chmn., pres. & CEO J. J. Buccignano, exec. v-p & CFO	2722 1323	1 7	5166 210	12986 4005	133	4 3	139.4	106.5	1 1
36 UTILITIES (UTILITIES)											
AES	835.0 18.1	D. W. Bakke, pres. & CEO T. A. Tribone, sr. v-p	1161 685	39 115	0 276	4208 1963	205	2 2	20.7	-21.3	2 2
AMERICAN ELECTRIC POWER	5849.2 13.0	E. L. Draper Jr., chmn., pres. & CEO G. P. Maloney, v-p	1002* 501*	9 13	686 297	3932 1863	135	3 2	12.4	52.9	2 2
*1996 bonus estimated.											
CAROLINA POWER & LIGHT	2995.7 14.2	S. H. Smith Jr., chmn. & CEO W. Cavanaugh III, pres. & CEO*	1114 847	12 21	31 22	3008 2181	144	2 3	13.3	10.8	2 2
*Became CEO 10/1/96.											
CENTRAL & SOUTH WEST	5155.0 7.8	E. R. Brooks, chmn., pres. & CEO T. V. Shockley III, exec. v-p	1054 689	29 32	418 249	2909 1863	104	3 3	11.1	-12.4	3 3
CINERGY	3242.7 13.0	J. E. Rogers, vice-chmn., pres. & CEO J. H. Randolph, chmn.	1236 867	42 0	3078 661	7296 3229	147	4 4	11.5	NM	3 2
CONSOLIDATED NATURAL GAS	3794.3 13.5	G. A. Davidson Jr., chmn. & CEO R. W. Best, sr. v-p*	969 586	23 NA	84 41	2415 NA	135	2 NA	7.7	56.2	1 NA
*Resigned 3/8/97.											
DOMINION RESOURCES	4842.3 9.6	T. E. Capps, chmn., pres. & CEO J. T. Rhodes, pres. & CEO-Virginia Power	1014 658	8 -3	409 76	3342 2139	104	3 4	9.7	-17.7	4 4
DTE ENERGY	3645.4 9.0	J. E. Lobb, chmn. & CEO A. F. Earley Jr., pres. & COO	637 455	0 -5	87 48	1931 1397	133	1 2	10.9	-39.8	3 3
DUKE POWER	4758.0 14.0	W. H. Grigg, chmn. & CEO W. A. Coley, pres.-sub.	971 723	-3 21	229 145	3389 2172	126	3 3	13.6	6.0	2 2
EDISON INTERNATIONAL	8544.5 11.2	J. E. Bryson, chmn. & CEO S. E. Frank, pres. & COO-SCE	1642 941	17 88	0 0	3713 NA	120	3 NA	11.3	4.5	3 NA
EL PASO NATURAL GAS	3010.0 2.3	W. A. Wise, chmn., pres. & CEO H. B. Austin, exec. v-p & CFO	1400* 678**	19 46	4277* 528**	9817 2473	158	5 3	9.0	-82.1	5 5
*Salary replaced with stock awards; portion of bonus also under restricted stock. **Unspecified portion of bonus paid in restricted stock.—included under both coll.											
ENTERGY	7163.5 6.3	E. Lupberger, chmn., pres. & CEO J. L. Maulden, vice-chmn.	1308 722	-4 -11	0 0	4597 2665	94	4 5	6.4	-9.8	4 4
FPL GROUP	6036.8 12.6	J. L. Broadhead, chmn. & CEO P. J. Evanson, pres.	1552 883	0 9	990 197	7490 2581	136	4 3	12.5	20.7	4 3
GPU	3918.1 9.8	J. R. Leva, chmn. & CEO F. D. Hafer, pres. & COO	1033 557	12 48	82 61	3062 1426	131	3 2	10.3	-13.5	3 3
HOUSTON INDUSTRIES	4095.3 10.1	D. D. Jordan, chmn. & CEO R. S. Letbetter, v-p	2026 747	13 15	767 139	7256 2336	119	5 4	10.6	-20.9	5 4
OHIO EDISON	2469.8 12.2	W. R. Holland, CEO H. P. Burg, pres., COO & CFO	730 318	7 12	62 45	2057 970	124	1 1	12.2	NM	1 1
PACIFICORP	4293.8 11.8	F. W. Buckman, pres. & CEO C. E. Robinson, chmn.-Pacific Telecom	1077 721	64 2	498 213	4209 2736	126	4 4	12.3	0.3	4 3
PANENERGY	7536.8 15.0	P. M. Anderson, pres. & CEO J. T. Hackett, exec. v-p	1215 792	54 NA	1028 2091	3584 NA	210	1 NA	13.2	68.9	1 NA

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those who dare to imagine a world beyond the horizon.
A world in which old truths are enriched with new ones.
The greater the resources, the greater the possibilities.

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needs?



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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	EXECUTIVE		1995 COMPENSATION			1993-95 PAY-PERFORMANCE ANALYSIS					
			TOTAL ANNUAL COMP		LONG-TERM COMP \$000	PAY VS. SHAREHOLDER RETURN			PAY VS. CORPORATE PROFIT		
	1995 SALES \$ MILLIONS ROE %		SALARY & BONUS \$000	% CHANGE FROM 1994			TOTAL COMP \$000	\$ VALUE OF \$100 INVESTED	RATING	ROE %	CHANGE IN ROE %
PECO ENERGY	4283.6	C. A. McNeill Jr., pres. & CEO	724	1	0	2111	101	2	10.9	-15.4	2
	10.7	J. F. Paquette Jr., chmn.	813	-9	315	3651		5			4
PG&E	9610.0	S. T. Skinner, chmn. & CEO	677	-37	0	2718	75	4	11.5	-27.2	3
	8.6	R. D. Glynn Jr., pres. & COO	463	-21	7	1437		3			3
PP&L RESOURCES	2910.0	W. F. Hecht, chmn., pres. & CEO	670	37	139	2152	107	2	11.1	-7.5	2
	12.0	F. A. Long, exec. v-p	465	30	83	1512		2			2
PUBLIC SERVICE ENTERPRISE GROUP	6041.2	E. J. Ferland, chmn., pres. & CEO	712*	-22	171	3088	108	3	12.1	-2.9	3
	11.3	L. R. Eliason, pres.†	437**	-21	35	1126		2			1
*1996 bonus has not been determined. **Entire 1996 bonus has not been determined.											
SONAT	3394.9	R. L. Kuehn Jr., chmn., pres. & CEO	3691*	153	3877	11388	196	5	12.1	-32.7	5
	13.1	D. G. Russell, exec. v-p	951	46	468	3189		3			5
†Includes \$2,154,978 tax reimbursement upon exercise of stock options.											
UNION ELECTRIC	2260.4	C. W. Mueller, pres. & CEO	606	5	0	1703	119	1	13.0	-3.5	1
	12.4	C. J. Schukai, sr. v-p	334	5	0	941		1			1
WILLIAMS	3531.2	K. E. Bailey, chmn., pres. & CEO	950*	16	1467	5890	252	2	10.5	-18.4	4
	11.1	L. A. Hightower, pres.-sub.†	527	15	0	1469		1			3

ALPHABETICAL LIST OF COMPANIES

The number following each identifies the Scoreboard category under which it is listed

Abbott Laboratories 11	Berkshire Hathaway 21	Dominion Resources 36	Golden West 21	MBNA 5	Philip Morris 35	Temple-Inland 10
ADC Telecommunications 32	Black & Decker 15	Donnelley (R.R.) 30	Goodyear Tire & Rubber 34	McDonnell Douglas 1	Phillips Petroleum 20	Tenet Healthcare 30
Advanced Micro 12	Boeing 1	Dover 15	GPU 36	McGraw-Hill 26	Pioneer Hi-Bred 13	Tenneco 9
AES 36	Boston Scientific 11	Dow Chemical 8	Grainger (W.W.) 30	MCI Communications 32	Pitney Bowes 22	Texaco 20
Aetna 21	Bristol-Myers Squibb 11	Dow Jones 26	Green Tree Financial 21	Medtronic 11	PNC Bank 5	Texas Instruments 12
AFLAC 21	Browning-Ferris 30	Dresser Industries 15	GTE 32	Mellon Bank 5	PP&L Resources 36	Textron 9
Ahmanson (H.F.) 21	Burlington Northern Santa Fe 27	DTE Energy 36	Gurdant 11	Merck 11	PPG Industries 7	3Com 22
Air Products & Chemicals 8	Burlington Resources 20	Duke Power 36	Halliburton 23	Merrill Lynch 21	Praxair 8	Time Warner 26
Albertson's 28	Campbell Soup 13	Dun & Bradstreet 26	Harcourt General 9	MGIC Investment 21	Procter & Gamble 25	Times Mirror 26
Alcoa 18	Campbell Soup 13	DuPont 8	Harris 12	Micron Technology 12	Progressive 21	Torchmark 21
Allegheny Teledyne 9	Cardinal Health 29	Eastman Chemical 8	Healthsouth 30	Microsoft 22	Public Service Ent. 36	Total System Services 22
AlliedSignal 9	Carnival 17	Eastman Kodak 17	Heinz (H.J.) 13	Minnesota Mining 19	Quaker Oats 13	Transamerica 21
Allstate 21	Carolina Power 36	Eaton 12	Hercules 8	Mobil 20	Qualcomm 12	Travelers Group 21
Alltel 32	Caterpillar 15	Edison International 36	Hershey Foods 13	Molex 12	Ralston Purina 13	Travelers Property Casualty 21
Amerada Hess 20	Central & South West 36	El Paso Natural Gas 36	Hewlett-Packard 22	Monsanto 8	Raychem 12	Tribune 26
America Online 22	Chase Manhattan 5	EMC 22	HFS 30	Morgan (J.P.) 5	Raytheon 12	TRW 9
American Brands 35	Chevron 20	Emerson Electric 12	Hilton Hotels 14	Morgan Stanley 21	Reader's Digest 26	Tyco Intl. 15
American Electric 36	Chubb 21	Engelhard 8	Honeywell 16	Morton International 8	Regions Financial 5	Tyson Foods 13
American Express 21	Cigna 21	Enron 30	Household Intl. 21	Motorola 12	Republic Industries 30	U.S. Bancorp 5
American General 21	Cincinnati Bell 32	Enron Oil & Gas 20	Houston Industries 36	Nabisco Holdings 13	Republic New York 5	U.S. Robotics 32
American Home 11	Cincinnati Financial 21	ENSCO International 23	Humana 30	National City 5	Reynolds Metals 18	US West (Consolidated) 32
American Intl. Group 21	Cinergy 36	Entergy 36	Huntington Bancshares 5	National Semicond. 12	RJR Nabisco 35	UAL 2
Ameritech 32	Cisco Systems 22	Equifax 21	IBM 22	NationsBank 5	Rockwell International 9	Union Camp 10
Amgen 11	Citicorp 5	Equitable 21	IKON Office Solutions 9	NCR 22	Rohm & Haas 8	Union Carbide 8
Amoco 20	Clear Channel Communs 26	Estee Lauder 25	Illinois Tool Works 19	Newell 19	Rubbermaid 19	Union Electric 36
AMF 12	Clorex 25	Exxon 20	IMC Global 8	Nike 33	Safeco 21	Union Pacific 27
Anadarko Petroleum 20	CNA Financial 21	Federal Express 30	Ingersoll-Rand 15	Nordstrom 29	Safeway 28	United HealthCare 30
Analog Devices 12	Coastal 20	Fifth Third Bancorp 5	Intel 12	Norfolk Southern 27	Sara Lee 13	United Technologies 1
Andrew 12	Coca-Cola 6	First Bank System 5	International Flavors 8	Northern Trust 5	SBC Communications 32	UNUM 21
Anheuser-Busch 6	Coca-Cola Enterprises 6	First Chicago NBD 5	International Paper 24	Northrop Grumman 1	Schering-Plough 11	UST 35
Aon 21	Colgate-Palmolive 25	First Data 22	ITT Hartford Group 21	Northwest Airlines 2	Schlumberger 23	USX-Marathon 20
Apache 20	Columbia/HCA Healthcare 30	First of America Bank 5	Johnson & Johnson 11	Norwest 5	Schwab (Charles) 21	VF 33
Applied Materials 15	Compaq Computer 22	First Tennessee Natl. 5	Johnson Controls 19	Novell 22	Sears, Roebuck 29	Wachovia 5
Archer Daniels 13	Computer Associates 22	First Union 5	Kellogg 13	Nucor 31	Sherwin-Williams 7	Walgreen 29
AT&T 32	ConAgra 13	First USA 21	Kerr-McGee 20	Nynex 32	Sigma-Aldrich 11	Warner-Lambert 11
Atlantic Richfield 20	Conrail 27	Firststar 5	KeyCorp 5	Occidental Pet. 20	Seagate Technology 22	Washington Mutual 21
Automatic Data 22	Conseco 21	Fleet Financial Group 5	Kimberly-Clark 24	Ohio Edison 36	Sears, Roebuck 29	Wells Fargo 5
AutoZone 29	Cons. Natural Gas 36	Floor 30	Knight-Ridder 26	Oracle 22	Star Banc 5	Western Atlas 23
Avery Dennison 19	Cooper Industries 12	Ford Motor 4	Leggett & Platt 3	Oxford Health Plans 30	State Street Boston 5	Westinghouse Electric 12
Avon Products 25	CoreStates Financial 5	FPL Group 36	Lilly (Eli) 11	Pacific Telesis Group 32	Summit Bancorp. 5	Weyerhaeuser 24
Baker Hughes 23	Corning 19	Franklin Resources 21	Linear Technology 12	PacificCorp 36	Sun Microsystems 22	Whirlpool 3
Banc One 5	Costco 29	Freeport-McMoRan C&G 18	Liz Claiborne 33	PaineWebber Group 21	SunAmerica 21	Willamette Industries 24
Bank of Boston 5	Cox Communications 26	Frontier 32	Lockheed Martin 1	PanEnergy 36	SunTrust Banks 5	Williams 36
Bank of New York 5	CPC International 13	Gannett 26	Loews 21	Parametric Technology 22	Synovus Financial 5	Winn-Dixie Stores 28
BankAmerica 5	Crestar Financial 5	Genentech 11	Lowe's 29	Parker Hannifin 19	Sysco 13	WMX Technologies 30
Bankers Trust 5	Crown Cork & Seal 10	General Dynamics 1	LSI Logic 12	Paychex 22	Tandy 3	WorldCom 32
Barnett Banks 5	CSX 27	General Electric 9	Lucent Technologies 32	PECO Energy 36	Tellabs 32	Wrigley (Wm.) Jr. 13
Baxter International 11	Dana 4	General Mills 13	Mallinckrodt 11	PepsiCo 6		
Bay Networks 22	Deere 15	General Re 21	Manpower 30	Perkin-Elmer 16		
Bear Stearns 21	Delta Air Lines 2	Genuine Parts 30	Marriott Intl. 14	Pfizer 11		
Bell Atlantic 32	Diamond Offshore Drilling 23	Georgia-Pacific 24	Marsh & McLennan 21	PG&E 36		
BellSouth 32	Digital Equipment 22	Gillette 25	Marshall & Isley 5	Pharmacia & Upjohn 11		
	Disney (Walt) 17	Global Marine 23	Mattel 17	Phelps Dodge 18		

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GATHERING STRENGTH FOR A FRESH CHARGE?

Many gurus think the stock drop is over—and see the Dow back above 7000 by yearend

Are the stock market's recent gyrations its death throes—or merely a bull market catching its breath before soaring to new highs? For an answer to that question, BUSINESS WEEK turned to last year's forecasting stars, the market strategists who came the closest to calling the Dow's rise in BUSINESS WEEK's annual Market Forecast Survey for 1996. According to many of these market pros, the bull is far from dead.

Most of 1996's top forecasters are sticking to their guns, even though the Federal Reserve raised rates sooner and with less evidence of inflationary pressure than many expected. Far from cutting back their 1997 forecasts, some of the pros are even raising yearend targets. These gurus say that the market's recent decline, with the Dow Jones industrial average suffering as much as an 8.6% drop from its March peak, and the Standard & Poor's 500-stock index falling 10% from its February high, is not the start of a long-term bear market. It is, they say, a short interruption in the bull's advance. Most of them are forecasting that the combination of solid earnings and low inflation will shepherd the Dow and the S&P 500 to healthy, if not spectacular, gains in 1997.

CHANGE OF TUNE. The Dow's big down-draft came as no surprise to Robert F. Dickey, technical analyst at Dain Bosworth Inc. in Minneapolis. Dickey was the winning strategist in BUSINESS WEEK's 1996 survey. He had the highest Dow forecast, at 6300, and came the closest to predicting the Dow's 26% rise last year. By late 1996, Dickey was singing a very different tune, saying that the market was close to a correc-

tion and that higher inflation would hurt interest rates and drag down stocks and bonds.

Now, Dickey's mood is less dour: Instead of sticking with his forecast of a Dow at 4400 by yearend, he now thinks it could close between 5500 and 6000. "It's a correction, not a bear market," says Dickey. "That means it will be short-lived."

Dickey was the most prescient guru in the 1996 survey,

“The mood in the market is PERFECT FOR A RALLY—dooom, gloom, and the gnashing of teeth”

but the most closely watched strategist is longtime bull Abby Joseph Cohen of Goldman, Sachs & Co. Cohen expects the Dow to rise about 10% in 1997, in line with earnings. "My forecast is still for a Dow of 7050 by yearend," she says. The "ugly economic conditions" that typically accompany a bear market simply aren't here, says Cohen. "We have an economy doing very well, thank you very much, inflation that is very much under control, and we have a Fed deciding to raise rates now in an attempt to preempt inflation in the future."

Interest rates have to rise very dramatically to have much impact on profit growth, says Cohen. She doesn't think the rise in rates in 1997 will be "dra-

matic enough to bring us into recession or cause a dramatic change in the structure of most companies." The 30-year Treasury, which stood at 7.1% on Apr. 9, could go up a more, but economists at Goldman, Sachs think the 1997 rise in the long bond yield is about over.



JOSEPH V. BATTIPAGLIA
Gruntal & Co.

Gruntal & Co.'s Joseph V. Battipaglia is another steadfast bull who is holding to his yearend forecast. The market has had a correction, he says. But "relatively low inflation, solid economic growth, and at least a 10% expansion of corporate profits should bring us back roughly 7000 by yearend," says Battipaglia. Since rampant bullishness would be a contrary indicator, he thinks that "the mood in the market is perfect for a rally—dooom, gloom, and the gnashing of teeth."

With the window for initial public offerings closed, investors should focus their attention on small- and mid-cap stocks that have gone wanting since last summer, says Battipaglia. "The key decision has been to index your money

the Standard & Poor's 500-stock or to play the IPO sweepstakes," vs. The Dow may have a 10% year 97, but "the real action is in the broader indexes of smaller stocks such as the Russell 2000."

Strategists agree that what matters to the inflation rate will determine the path that the market takes. With inflation at about 3% and the Fed-Funds rate at 5.5%, it doesn't take much to slow growth in the GDP down, says Guy M. Applegate, chief investment strategist at Lehman Brothers Inc. "Our sense is that the bulk of the correction is behind us," he says. "Peak enough, it was 10%, and we'll revisit that and maybe a little more, but I don't think it will pile on another 10%."

RECYCLE. Applegate's latest recommendation to clients focuses on what the market is likely to be. He looked back at the five prior corrections that took place in long-cycle environments, when the Fed was trying to slow growth but not bring on a recession. Applegate found that the market corrected, the Fed slowed GDP and thus extended the earnings cycle, and the stock market average rebounded one year after the trough was reached was 30%. If the Fed manages to slow GDP growth, the multiple expansion in the stock market will bring it to a yearend target of 7800, he says.

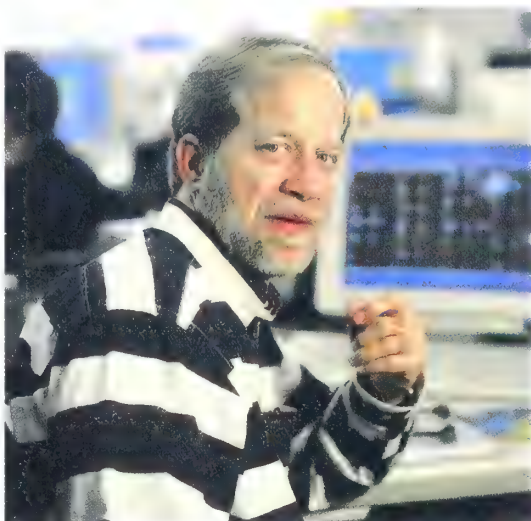
Another bullish voice belongs to J.P. Morgan-Humphrey Co.'s Robert S. Smith. "There is an excellent chance that we've seen the low of this correction," he says. "In superbull markets

“IT'S A CORRECTION, not a bear

market. That means it will be short-lived”

ROBERT F. DICKEY

Dain Bosworth Inc.



like this, you don't get corrections over 11% unless something horrible happens like the Persian Gulf War with oil prices doubling." Oil policy, in fact, is the one issue troubling Robbins: "That was the risk in 1990, and it's still around." Nevertheless, he predicts a Dow of 7400 by yearend, and says there's a 1-in-3 chance the Dow will hit 8000.

Still, a few strategists who were among the most bullish in the 1996 survey are getting more nervous in 1997. The jitters started when the Fed took many strategists by surprise with its preemptive rate hike. "We all felt we understood the rules... and that unless we saw the known precursors to inflation such as gold going up or commodities going crazy that the Fed would basically keep policy steady," says Greg A. Smith, chief investment strategist at

Prudential Securities Inc. "Then in February and March, [Federal Reserve Chairman] Alan Greenspan started talking about tight labor markets, job uncertainty—a whole new set of issues."

"GOOD GUYS." The equity market has to figure out what the new rules are, says Smith: "Maybe strong growth is bad, and we don't even have to see signs of inflation. If that's true, then what follows strong is weak, and then we have to worry about profits." Still, while the bond market has "nothing to look forward to, the stock market at least has earnings," he says. "Hopefully, we've seen the bad guys—the earnings preannouncements—and now we'll see the good guys" as more earnings reports roll over the wires. Smith thinks a further 0.25% hike by the Fed is already factored into stocks, but he now considers his forecast of 7000 by midyear to be on the high end.

Peter J. Anderson, chief investment officer at American Express Financial Advisors, also strikes a worried tone. "I'm cautious as hell, since our economic framework over the next three to six months is not conducive to an advance in equity prices," he says. Anderson anticipates that three more Fed tightenings will bring the yield on the 30-year Treasury to between 7.25% and 7.75% by the third quarter. "That's not disastrous to common stocks, but it means that equities have to constantly swim upstream," he says. Anderson's target for the Dow at yearend is 6350. But "that is not the end of the bull market," he says. "We'll have another leg. It will just be an interruption."

Just about every strategist acknowledges that the next few weeks will be volatile, as first-quarter earnings reports buffet the market. Indeed, investors will probably have to adjust to living with a lot more volatility in 1997. But for those who have the fortitude to endure the swings, the strategists who called the Dow's rise last year think that enduring the pain will be well worth it.

By Suzanne Woolley in New York



ABBY JOSEPH COHEN

Goldman, Sachs & Co.

“My forecast is still for A DOW OF 7050 by yearend. We have an economy doing very well, thank you very much”

SCANDALS

BLACK EYE FOR A BLUE-CHIP EXCHANGE

Toronto reels from the Bre-X scandal, and reform is afoot

Canada is no stranger to mining-stock scandals. In the late 1980s, the Vancouver Stock Exchange—home to many highly speculative “junior,” or small, mining companies—was dubbed “the scam capital of the world” because of its many shady promoters. Just last December, investors in Timbuktu Gold Corp.—a highflier on the equally speculative Alberta Stock Exchange—saw their shares plunge more than 90% after the company’s claimed gold strike in West Africa turned out to be a fraud. Through it all, the Toronto Stock Exchange has cultivated its image as a blue-chip exchange above such shenanigans.

Not anymore. The spectacular meltdown of Bre-X Minerals Ltd. has cast a harsh spotlight on Canada’s premier exchange. Bre-X has lost some 90% of its value since its partner Freeport-McMoRan Copper & Gold on Mar. 26 reported finding “insignificant” amounts of gold at the Indonesian site Bre-X had billed as this century’s largest gold find. “The TSE is coming out of this looking awfully bad,” says Robert Bishop, editor of the *Gold Mining Stock Report*. On Wall Street, the TSE became



HIGH-TECH HELL: Toronto’s computer crash made it the butt of jokes

the butt of jokes after its computer system crashed under the weight of surging Bre-X orders for four consecutive trading sessions, ending on Apr. 3.

Now, the Bre-X affair is raising far more troubling questions about the ability of the TSE—and Canada—to protect investors from potential fraud. Critics are finding fault with virtually every step of the process: from the review of new listings to the adequacy of corporate disclosure to Canada’s patchwork system for catching scofflaws. “Every-

one in the investment community is appalled” by the Bre-X affair, says Robert Sillcox, retired chief investment officer for the Ontario Municipal Employees Retirement System, a major institutional investor, who warns that it “hurt Canada’s reputation.”

TSE officials defend their efforts, “awfully difficult to legislate against fraud,” says former TSE Chairman Frank Ketchen. Adds TSE CEO Roland Fleming, “I don’t know of a market that has

had the occasional shock, and despite Bre-X, “the TSE compares to the best markets in the world. Maybe so. But Bre-X seems certain to spark a major overhaul of securities regulation in Canada—even though Bre-X CEO David G. Walsh asserts: “I’m 120% confident that the gold is there.”

SCATHING. Fleming, who concedes the TSE has limited regulatory authority, advocates big reforms. Indeed, Bre-X exploded less than 10 days after the TSE issued a scathing report on the relative impunity with which some companies violate disclosure laws.

Critics point to other lapses in the Bre-X affair. While Bre-X had issued a prospectus when it listed on the Alberta exchange in 1989, critics say a new prospectus should have been required when it joined the TSE last year. “We have very high standards,” responds Fleming, who says the TSE used its own mining consultants to review Bre-X and other junior mining applicants, “60% of whom were denied listing.” Still, “it’s fair to suggest the TSE will now be reviewing its listing requirements,” admits Ketchen.

Angry shareholders charge, in several class actions, that Bre-X is a te-

TROUBLE IN TORONTO

Critics say the Bre-X fiasco reveals serious flaws in Canadian securities regulation

WEAK WATCHDOG

Canada has no national securities regulator. The Ontario Securities Commission, which oversees the Toronto Stock Exchange, lacks sufficient resources to protect investors.

LOOSE LISTINGS

Bre-X, which was first listed on the Alberta Stock Exchange in 1989, was not required to file a new prospectus before it obtained a listing on the TSE in April, 1996.

INADEQUATE DISCLOSURE

The TSE’s own committee on “responsible corporate disclosure” warned just days before Bre-X exploded that it was too easy for companies to violate disclosure requirements.

OUTDATED TECHNOLOGY

The TSE was forced to halt trading in Bre-X for four straight days because its 20-year-old computer system could not process the huge upsurge in orders.

DATA BUSINESS WEEK

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book example of a company using misleading statements to perpetrate a huge fraud. If so, that would be a clear violation of Canadian securities law, which, like U.S. law, requires full and accurate disclosure, says Toronto attorney Thomas I.A. Allen, who chaired the TSE's corporate-disclosure committee.

But in a damning report released days before Bre-X exploded, the Allen committee found there aren't enough teeth behind the Canadian disclosure laws to scare companies into compliance. Unlike the U.S., Canada doesn't have a national securities regulator. And the Allen committee found that the Ontario Securities Commission, which oversees the TSE, has had "patently inadequate funding to perform [its] tasks." In the Bre-X case, the OSE has launched a probe of possible insider-trading violations.

FIRST LAWSUIT. Even worse, Canadian law makes it difficult for shareholders to successfully sue companies for fraudulent misrepresentation—the key deterrent to fraud in U.S. markets. On Apr. 3, Windsor (Ont.) law firm Gignac, Sutts filed a \$2.2 billion class action against Bre-X. But attorney Harvey T. Strosberg, who brought the suit, admits it's "the first such class action" ever filed in Canada. Until Canadian laws are changed to give shareholders an explicit right to sue—something the Allen committee recommended—the action faces an uphill battle.

Some shareholders complain that the TSE's biggest failure was not halting trading on Mar. 27 after the bombshell announcement from Freeport. But Fleming rebuffed Walsh's request to halt the stock. "We would have been doing a huge disservice to market participants had we followed his request," says Fleming. Problem is, once trading resumed on Mar. 27, the volume of orders forced the TSE to shut early that day and to stop accepting orders for Bre-X on the next three trading days. It was an enormous embarrassment for an exchange that once billed itself as a high-tech leader.

The software problem that caused this snafu has now been fixed, and the TSE expects finally to replace its 20-year-old computer system this fall. But no Canadian politician will be able to duck what Fleming calls "the true tragedy—the many retail investors who gambled [on Bre-X] and lost, without understanding the real risks." For now, the Canadian system "does not adequately protect" investors from such risks, says Allen. If Bre-X turns out to involve fraud, they may finally get the protection they deserve.

By William C. Symonds in Toronto

ACCOUNTING

CORPORATE AMERICA IS FED UP WITH FASB

A new chief of the accounting-rules board will face a storm

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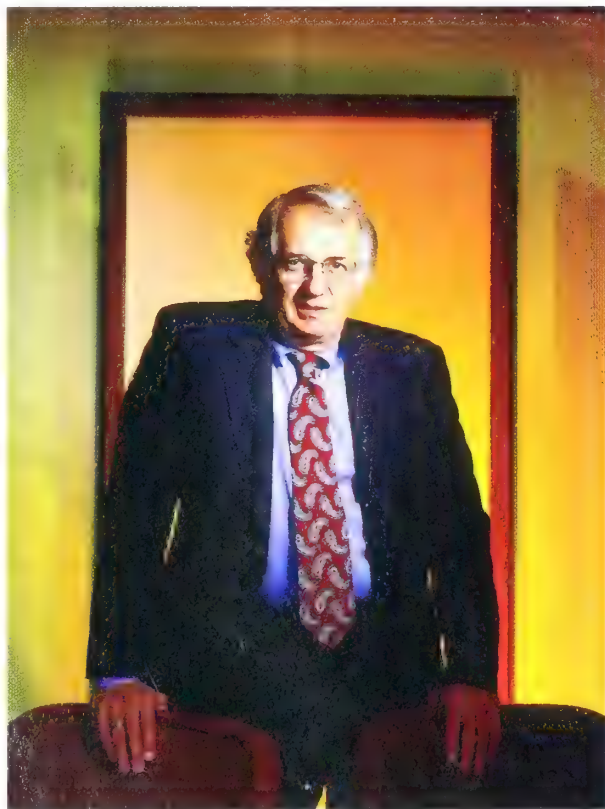
That organization, of course, is the Financial Accounting Standards Board (FASB), established in 1973 at the behest of Corporate America to strengthen private-sector control over rule-making. On Apr. 14, trustees of the Financial Accounting Foundation, which oversees FASB, will meet to deliberate, and possibly

VICE-CHAIRMAN LEISENRING: FASB and backers of global rules are "miles apart"

decide, on a replacement for 58-year-old Chairman Dennis R. Beresford, who will retire June 30 after serving in post for the maximum ten-year period. Trustees have managed to keep names of any front-runners a tight secret.

Pity Beresford's successor. By accounts, the winning candidate will take over the office at a time when FASB's relations with its corporate constituency have deteriorated so sharply that its future as an independent

is in question. Critics, including accountants, firms and big corporations such as Citicorp, General Electric, Motorola, complain FASB of late has drifted from its mission of devising rules that reflect marketplace realities. Instead, FASB formulates rules that critics find burdensome, incomprehensible, unnecessary. At the same time that it permits big, expensive projects to drag on for years, it overwhelms companies and their accountants with rule proposal changes faster than they can keep up with them. Philip D. Ameen, vice-president and comptroller at General Electric Co., says that FASB "tends to start with the idea that current accounting is to be overturned, the wholesale dismissal of well-understood practices doesn't seem to be the most effective



FASB should be scrapped altogether, even if that means government regulations, says Citicorp's John Reed



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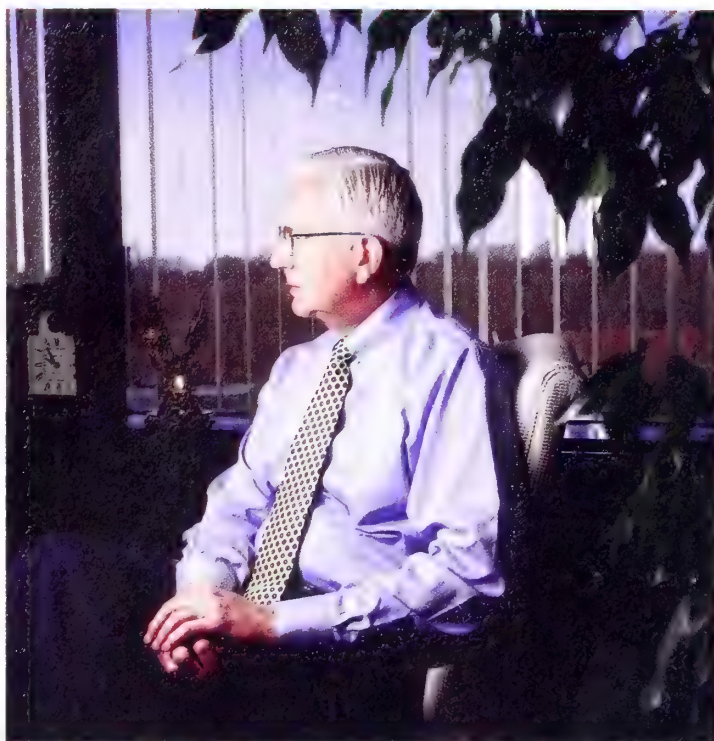
productive means of setting standards." Vice-Chairman James J. Leisenring shrugs this off. "The criticism has been issue-specific," not criticism of the institution per se.

Although corporations have griped about FASB for years, some are going further. Citicorp Chairman and CEO John S. Reed has called for scrapping FASB altogether and has even told Chairman Arthur Levitt Jr. of the Securities & Exchange Commission, which enforces the rules FASB makes, that he'd rather the government made the rules. Citicorp, for one, now steers clear of "wash sale" transactions that would entail compliance with newly effective FASB 125. That rule, which Citicorp Controller Roger W. Trupin describes as "ridiculous" though its financial impact is relatively small, requires gains on asset sales to be reported even if the asset

is immediately reacquired. Adds Trupin: "More than ever, they're circling the wagons. They're not listening anymore." **A LOT OF FLAK.** Some companies have even quietly discussed simply ignoring some FASB provisions. Asked about such a move, Levitt emphatically responds: "The financial statements would not be acceptable for filing." As for FASB's future, he adds: "I shall do everything in my power to protect the FASB and to nurture the process of independent standard-setting. The alternatives are too onerous. Politicization of the standard-setting process would be an economic catastrophe."

Several recent FASB moves account for much of the dissatisfaction. In 1995, FASB caught so much flak for proposing to require that employee stock options be expensed that the board effectively backed down. Now, companies are fuming over other FASB proposals calling for major changes in accounting treatment, presentation, and disclosure, notably a change that would require current market valuation rather than historical cost treatment for derivatives transactions. Big banks like Citicorp contend that the change will severely erode the value of instruments such as swaps as risk-management tools.

Companies also fault FASB's "comprehensive income" proposal, which would require items such as unrealized gains



BERESFORD: FASB's chairman has only "limited authority"

and losses to be reported separately from net income. Companies say that would make financial statements even more confusing. FASB's so-called segment reporting proposal, which would call for more detailed data on lines of business, would be excessively burdensome, say companies. And they oppose as simply unnecessary a proposal that would require consolidation into the parent of certain units controlled by the company in addition to those in which it holds majority stakes.

To some, the most contentious issue

FASB: THE RAP FROM BIG BUSINESS

ISSUES

- Too many costly rule changes
- Rules are unrealistic and incomprehensible
- Bias toward investors, not companies
- Resistance to global standards

PROPOSED RULES

- Fair-market valuation for derivatives - Impedes risk management
- Segment reporting - Too detailed
- Comprehensive income - Confusing for users
- Company unit consolidation - Superfluous

Critics say FASB produces costly, hard-to-understand rules that often represent solutions in search of a problem

is FASB's dogged resistance to international accounting standards and its demand that foreign companies seeking to raise capital in the U.S. play by its rules.

Its resistance, though, could pose a more serious long-term threat to FASB. The New York Stock Exchange, along with an ad hoc organization of financial executives known as the International Accounting Standards Committee (IASC), is pushing for "international harmonization." Officials of the IASC and the NYSE, which seeks foreign company listings, declined to comment. Vice-Chairman Leisenring says that FASB favors global standards but not weaker ones. However, he says, FASB and IASC are "far apart. There are an infinite number of differences."

For his part, Beresford concedes that FASB's conservative posture may be partly to blame for the board's unpopularity. "The chairman has limited authority in terms of forcing things to be done," he says. Personally, he plays a role, too, FASB-watchers say. Beresford, described as a brilliant but strong-willed technician, typically outflanks the more pragmatic Beresford. Without naming Leisenring, Beresford says: "Somebody wants to study things to look for ideal solutions."

To FASB's harshest critics, the accounting body's demand to be the most ideal solution is the problem.

By Phillip L. Zweig
New York, with Dean
Washington



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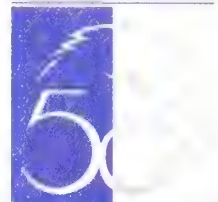
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MARKETS

LATIN BULLS DON'T SCARE

Bourses are booming

Rising interest rates have Wall Street on edge, but on stock markets south of the border, traders are feeling anything but downtrodden. The region's major *bolsas* have climbed steeply: Brazil's by 40% from the beginning of the year to Apr. 8, Mexico's 13%, Argentina's 12%. And the upturn will continue, fund managers expect—by contrast with past years, when minor setbacks on Wall Street often plunged Latin markets into disarray. The reason: Bullish economic fundamentals. Latin America still has “tremendous growth potential,” says Leila Heckman, chief global asset allocator for Smith Barney Inc. in New York.

Increases of around 4% in gross domestic product are expected by Brazil, Mexico, and Argentina this year (charts), along with stable inflation and falling domestic interest rates. In 1997, net investment inflows into Latin equities from the U.S. will total \$6 billion, Morgan Stanley & Co. forecasts, second only to 1993's peak of nearly \$10 billion. While a crisis in any major Latin country would still spook investors, economies in the region are less dependent than they were in the early 1990s on inflows of hot money, which rapidly flowed out again after Mexico's 1994 peso crash.

There's also a risk that the region could be sideswiped by a major hike in U.S. interest rates, which would drive money into U.S. fixed-income assets. But analysts believe Latin markets

could absorb a modest rate increase: After the Federal Reserve's quarter-point hike on Mar. 25, they rebounded quickly. “People are starting to say, ‘Hey, there are reasons’” for this buoyant performance, says Robert J. Pelosky Jr., Morgan Stanley's Latin American equity strategist. “I think the fundamentals both on the micro and macro level support it.”

BARGAINS. The darling of fund managers is Brazil, where São Paulo's market has soared 75% in dollar terms over the past year. Among star performers are shares of state-run utilities. Holding company Telebrás “is the cheapest telecom stock in Latin America, if not the world,” says Gabriel Wallach, Latin American analyst at Fiduciary Trust Co. International in New York. It is selling at less than 10 times earnings despite expected profits of \$4 billion this year. Brazilian retailers and consumer-goods producers are also attracting cash. Andrew Shores, equity strategist at São Paulo investment bank Garantia, likes

IT'S FUNDAMENTAL
“Tremendous growth potential” is driving markets up, no matter what Wall Street does

textile manufacturer Coteminas, which he calls “competitive by any standard around the world.”

In Mexico, investors are upbeat despite some wariness over nationwide mid-term elections in July. Among the good omens: falling inflation, continued export growth, and signs of revived consumer spending. Many analysts are recommending stocks tied closely to the domestic economy. *Telefonos de México* is a favorite, along with leading banks Banamex and Banesa, and cement makers Apax and Cemex.

Argentina's projected GDP growth of 5% to 6% this year is winning over some fund managers, although the peso's ironclad tie to the dollar makes Buenos Aires the Latin market most susceptible to rate shocks from

the U.S. At an average trailing p-e ratio of 39, Argentine stocks are expensive, but there are buying opportunities. Banco de Galicia, Argentina's biggest private bank, is selling at a p-e ratio of 12, despite an expected 25% earnings rise this year.

For smaller Latin markets, the outlook is more mixed. Lawrence Kroll, Latin American equity strategist at UBS Securities in New York, is unenthusiastic about Colombia, where President Ernesto Samper Pizano's political troubles have caused economic uncertainty. He also counsels shunning Venezuela, where the slow pace of structural reforms has left its economy in the dark ages.

Heckman tells her clients to diversify, because emerging markets “can go up 60% or down 60%.” But Wall Street's downturn may send more investors in search of alternatives. And that could keep the Latin fiesta going for a while.

By Ian Katz in São Paulo, William Glasgall in New York, and Elisabeth Malkin in Mexico City

THE CASE FOR LATIN STOCKS

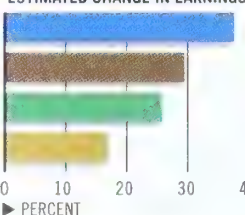
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...AND LOW VALUATIONS

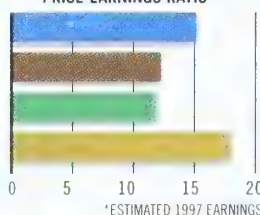
ESTIMATED CHANGE IN 1997 GDP



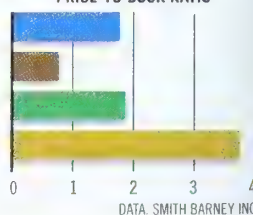
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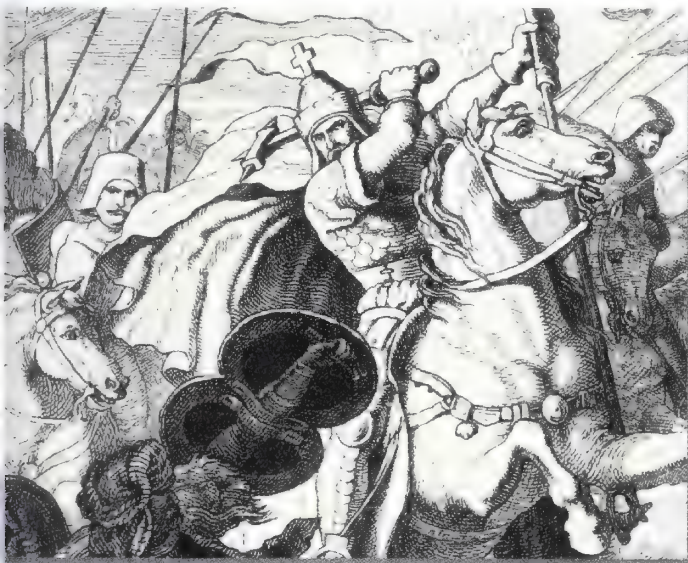
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BANKING

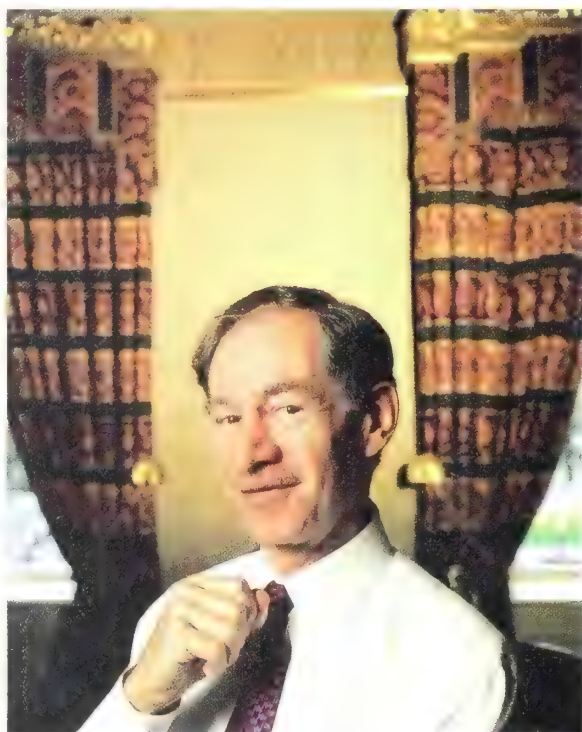
IS BANKERS TRUST BACK ON TRACK?

The Alex. Brown deal is a big step toward making it a player

On Apr. 5, it was anything but business as usual for the methodical Frank N. Newman. By 5 p.m., the chairman and CEO of Bankers Trust New York Corp. had gotten the go-ahead from his board to buy investment banker Alex. Brown Inc. for a hefty \$1.7 billion. By early the next morning, he was on a plane to Calgary, Alta., to see how his son was weathering a 40-foot ice-climbing fall. By nightfall, he could breathe easy. His son would recover, and his bank should prosper.

There had been few doubts that Newman, a former chief financial officer of BankAmerica Corp. and a former Treasury Dept. official, was the right man to fix the bank's wounded reputation and earnings, which had been sideswiped by a scandal over its derivatives sales practices. But questions lingered: Did Newman, an executive respected for his numbers acumen and integrity, have the vision to lead Bankers Trust into the corporate banking arena as a strong long-term player? In one fell swoop, the Alex. Brown deal allayed those fears. Says PaineWebber Inc. analyst Lawrence W. Cohn: "Bankers Trust is going to be a real competitor. There is no question about this now." Says Newman: "We think we have a significant opportunity and a real winner here."

ODD COUPLE. It was about a year ago that two friends—a director of Bankers Trust and a director of Alex. Brown—first broached the idea of a merger. Late last year, Newman met with the Baltimore-based investment bank's chairman and CEO, A.B. "Buzzy" Krongard. At first glance, the two would seem an unlikely pair. Krongard, 60, who has a shooting range at his estate, has a military mien, while Newman, 54, with his



modest and slightly professorial air, likes hiking and the Philharmonic. But six weeks ago, the two got serious. The allure for Krongard: a big price tag, the fact that Bankers was not a stodgy commercial bank that would squelch originality, and BT's strength in fixed-income securities, where Alex. Brown was weak. To celebrate, Krongard gave Newman a box of pre-Castro Cuban cigars. As Newman told reporters by phone from Calgary: "One of the many things that Buzzy and I enjoy in common is a good cigar from time to time, though Buzzy has a better humidor."

In his first year at Bankers Trust's helm, Newman faced seemingly insurmountable problems in restoring the bank's reputation. He moved fast to set-

tle a bitter derivatives lawsuit with Procter & Gamble Co. for about \$1 million. Then he bought merger advisory firm Wolfensohn & Co., adding chairman, former Federal Reserve he Paul A. Volcker, to the board. Now, with Alex. Brown, Newman has made the bank a bona fide player in equities. "Strategically, it makes a lot of sense," says David A. Daberko, chairman of National City Corp., which bought a regional investment bank in 1995.

Fixing Bankers' earnings, which had relied too much on trading and derivatives, has also been a tough job. Derivatives contributed 42% of 1994's income

CEO NEWMAN:
His deal gives
BT a presence
in equities

before losing \$202 million in 1995. They began a turnaround in 1996 and should be the black in 1997. Earnings, which had fallen

in 1995 to \$215 million from \$615 million in 1994, returned to \$612 million in 1996. Brown Brothers Harriman analyst Raphael Soifer sees earnings of about \$800 million before merger charges in 1997 and about \$900 million in 1998.

PRICEY. Making the merger work will be a challenge for Newman. There are cultural gaps, even though Bankers has done more than most commercial banks to adopt investment banking skills, people, and style. Daberko's advice to Newman: "Allow these people a good deal of autonomy and provide them with more and more opportunities from the bank."

Newman may have overpaid, in buying at 2.6 times book value a firm that specializes in initial public offerings at

the top of a bull market. But Cohn reckons that with tax and cost savings, Alex. Brown's earnings could fall more than 40% without dragging down Bankers' profits.

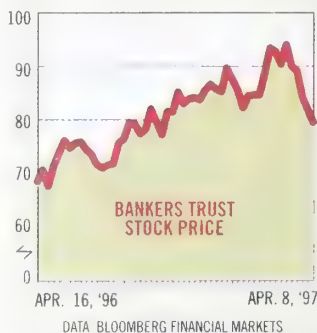
But Bankers Trust may still be handicapped by its pressed to compete with bigger investment and commercial banking firms with more dominant positions. Alex. Brown, further-

more, will not take Bankers Trust off the radar screen of other suitors. Rather, says Soifer, "it may be a more attractive takeover candidate."

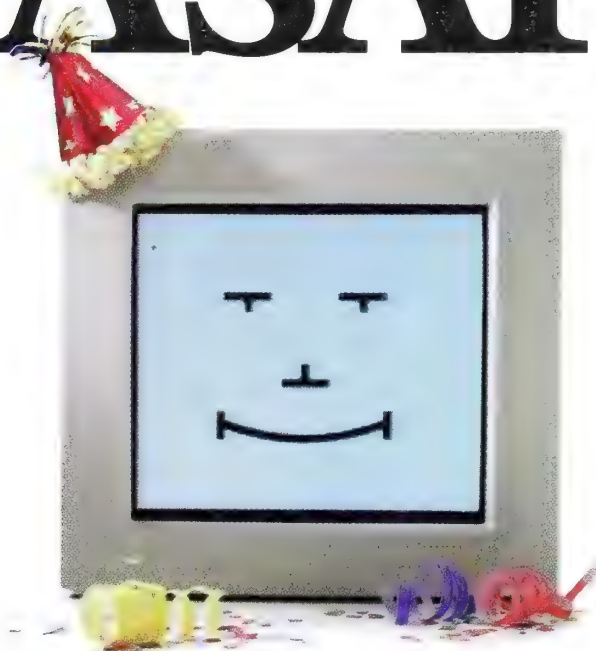
That said, Newman has shown the world he has the mettle to fix problems and the imagination to make bold strategic moves. Now he must prove his skill at execution.

By Alison Rea in New York

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COMMENTARY

By Leah Nathans Spiro

ALEX. BROWN: HANDLE WITH CARE

By any measure, the Apr. 11 press conference announcing Bankers Trust Co.'s \$1.7 billion purchase of Alex. Brown & Sons Inc. was a lovefest. Frank N. Newman, BT's chief executive, praised Alex. Brown as a "top quality" firm, while A. B. "Buzzy" Krongard, Alex. Brown's chief executive, called Bankers Trust "the perfect partner."

Too bad Frank and Buzzy are letting their infatuation blind them to recent history. Insurance companies, banks, and brokerages have poor track records managing regional brokerage firms. The history of financial goliaths acquiring national brokerages is equally sorry. Unless Bankers Trust manages its pricey purchase right, Baltimore-based Alex. Brown, the oldest investment bank in the U.S., could be the next Snapple Beverage Corp. A little advice to Bankers Trust: To preserve what is unique and valuable about Alex. Brown, manage it with an exceedingly light touch.

NOTORIOUS. Until recently, regulations have made it difficult for banks to buy brokers. Meanwhile, many insurers have been cherry-picking the handful of well-run regional brokerages, which specialize in niche markets and strong research on local companies. Unfortunately, many of these deals have simply quashed the regional broker and saddled the buyer with headaches. Even the biggest boys have egg on their faces. General Electric Co. bought Kidder Peabody & Co. in 1986, only to eagerly unload it in 1994. American Express bought Shearson in 1981, then gladly dumped it in 1993.

Among acquisitions of regional firms, the most notorious example is Kemper Corp. From 1982 to 1984, the Chicago insurance giant bought five local brokers, including the respected Prescott Ball & Turben in Cleveland. But Kemper couldn't or wouldn't retain their regional charac-

teristics, businesses, or managements. By 1992, Kemper retired all the firms' old-line names, clumsily combined their trading and research operations in Chicago, and crunched their unique local franchises into Kemper Securities, later Everen Securities. Then there was PaineWebber Inc.'s \$80 million acquisition of Rotan Mosle in 1983. The Houston-based shop had a thriving business in energy initial public offerings—not unlike Alex. Brown's specialty in



“Our success is based on our uniqueness”

A. B. “BUZZY” KRONGARD,
Chairman and CEO, Alex. Brown & Sons

high-tech IPOs. But when the energy market stumbled in 1984, the firm slashed costs and assimilated Rotan entirely into PaineWebber. Bank of America's ill-fated 1983 acquisition of discount broker Charles Schwab & Co. lasted just four years. Founder Charles Schwab undid the deal by buying his company back.

When buyers operate regional brokers as independent units with strong local management, they have flourished. Take Philadelphia-based Janney Montgomery Scott Inc., which in 1982 was acquired by Penn Mutual Life Insurance Co. Since then, it has become the largest contributor to Penn Mutual's bottom line, says Michael Flanagan, securi-

ties analyst at Financial Service Analytics Inc. “The deals that have worked are because the mother company leaves the brokerage operation alone,” says Flanagan. Smith Barney Inc. has wisely pursued a hands-off policy with 1,100-employee Robinson Humphrey Co. since buying the Atlanta-based brokerage back in 1982.

DUTY FREE? Yet Bankers Trust may have already begun dismantling Alex. Brown by retiring its CEO. Krongard, 60, whose leadership has had much to do with Alex. Brown's success, has been made vice-chairman of Bankers Trust's board, a titular position. What will he do? “Whatever Frank Newman wants me to do,” he says. Alex. Brown President Mayo A. Shattuck III will be vice-chairman and co-head of investment banking. Says independent securities analyst Perrin Long: “The danger is that BT doesn't keep its hands off of Alex. Brown and doesn't keep Brown's management and operations in place.”

Bankers Trust does plan to keep Alex. Brown in Baltimore. But it will be interesting to see how long before BT “integrates” its Baltimore bankers into its Park Avenue headquarters. And BT may have trouble retaining an Alex. Brown crown jewel: some 440 brokers who cover the mid-Atlantic region. Their customers might dislike doing business with BT, which has suffered reputational damage. “It is not going to be as prestigious as it once was,” predicts Long.

Despite Krongard's enthusiasm for the union, he admits that Bankers Trust is “marrying up.” He feels some sadness and concern about Alex. Brown getting lost at BT. “It's a real issue,” he says. “Our success is based on our uniqueness.” If Bankers Trust isn't careful, that could be Alex. Brown's epitaph.

Leah Nathans Spiro covers investment banking.

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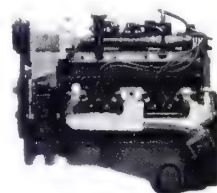


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BY GENE G. MARCIAL

LEEB: A TOUCH OF INFLATION WOULDN'T BE SO BAD



SNAPPING UP FLUOR AND SOTHEBY'S

Who's afraid of inflation? Most investors are, and Federal Reserve Chairman Alan Greenspan is spooked by its mere shadow. But investment adviser Stephen Leeb argues that a touch of inflation wouldn't be so bad for the stock market—so he remains bullish even if inflation does creep up a bit.

Leeb says that the market's current high valuations need strong economic growth. The alternative, he warns, is a vicious cycle of slowing growth that will spark a big drop in stocks as earnings start to dive—and trigger an economic deterioration. So he believes the Fed will back off and allow the economy to grow at a fast pace, even if that means tolerating inflation.

Leeb, editor of the market newsletters *Personal Finance* and *The Big Picture*, has a crafted portfolio that is leveraged to rising growth and inflation. Two of his favorites: Fluor (FLO), a global engineering and construction outfit whose stock plummeted from 75 a share in mid-February to 52, and auction house Sotheby's Holdings (BID), which slid from 19 to 15 in less than three months.

Fluor took a beating after it reported earnings below analysts' estimate for the first quarter that ended Jan. 31. The shortfall stemmed from cost overruns on two projects, explains Leeb. In fact, he says, Fluor reported an increase in new orders by a better-than-expected \$3.6 billion—evidence of real strength.

The surge in orders, he says, is due to big demand from developing countries as their economies heat up. Such nations make up more than 60% of Fluor's backlog.

Fluor's price-earning ratio is at a

10-year low, which "doesn't make sense because its long-term prospects are better than ever," says Leeb. It is trading at 13 times Leeb's estimated 1997 earnings of \$4 a share. In two years, he expects the stock to hit 100.

Shares of Sotheby's, Christie's larger rival at the high end of the art market, "are among the surest bets on rising worldwide disposable income," says Leeb, and one of the "safest and surest long-term inflation hedges." Expected to earn 97¢ a share in 1998 and 83¢ in 1997, Sotheby's is worth 25, he says.

Also bullish on Sotheby's: Henry Kravis and the Bass brothers, who both own more than 5% of the stock.

ENAMELON: THE SMELL OF DECAY?

One company that went public at 7 a share six months ago, Enamelon (ENML), has seen its stock soar to 24. Its product is a new anticavity toothpaste. Some investors buy the idea. But one New York money manager thinks the stock is way too expensive—at its current value of \$160 million—for a company that has yet to post revenues. So he's shorting it.

The last stock this pro shorted was CNS (reported in this column on Aug. 19, 1996). CNS has since fallen from 20 to 10.

This money manager says Enamelon, whose product is still being market-tested, must ring up sales of \$150 million and earn \$1 a share to justify its current market price. He doubts that

this will come to pass.

Robert Natale, editor of *Standard & Poor's Emerging & Special Situations* newsletter, cites Enamelon as one of the recent IPOs that reflect a general decline in the quality of new issues. Enamelon faces fierce toothpaste competitors such as Colgate-Palmolive and Procter & Gamble, notes Natale.

Analyst Anthony Viscogliosi of Rodman & Renshaw, the lead underwriter for Enamelon's IPO, remains upbeat. He expects the company to roll out its

toothpaste next year. The company says its product provides sodium fluoride, calcium, and phosphate to enhance remineralization of tooth enamel.

THE LURE OF AN 'ERODING' ASSET

When Danielson Holdings (DHC) announced in early March that a deal to sell the company had fallen through, its stock dived from 13 to 8 in one day. Money manager Terry Diamond believes the stock, now at 7, has become an irresistible bargain.

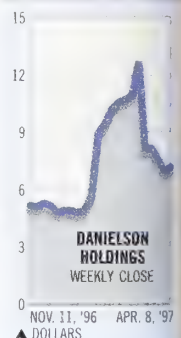
What's the appeal of Danielson, holding company with modest insurance operations, chiefly workers' compensation? It has a \$1.4 billion tax-loss carryforward, or net operating loss (NOL), that will start "eroding" next year and expire by 2010.

"The sharks have obviously smelled blood, and suitors have come rushing in to get the benefit of the huge NOL incentive," says Diamond, chairman of Talon Asset Management, who has been snapping up Danielson shares. He suspects that they're in talks for a fast deal.

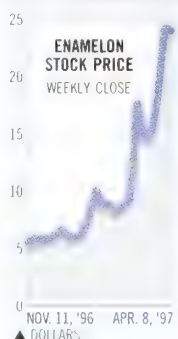
Analyst Ernest Jacob of the New York investment bank Furman Selz says that Danielson's NOL "is a wasting asset." He says the aborted deal was with Progressive, a large insurance company that had agreed to acquire 42% stake in Danielson, at \$6 a share. The deal would have let Progressive acquire the rest of Danielson by 2000 for 27 a share. Jacob explains that in order to use the tax write-off, there can be no change in control in the company for three years. At that point, says Jacob, there would be about \$1 billion of NOL remaining. That's why the deal was structured for Progressive to buy the rest of Danielson in the year 2000. Progressive didn't explain why it backed off the deal.

Diamond thinks the would-be buyer of Danielson will work out a deal similar to the one Progressive turned down, leaving the stock nowhere to go but up.

THE SHARKS MAY COME RUSHING IN



HEADING TOWARD A CREST



DATA: BLOOMBERG FINANCIAL MARKET

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COMMENTARY

By Naomi Freundlich

CONGRESS SHOULD PROTECT THIS MEDICAL LIFELINE

In 1993, DuPont Co. sold \$10.5 billion worth of the industrial fibers Dacron, Teflon, and Delrin. A mere \$600,000 in sales, however, went to biomedical-implant manufacturers. But for more than eight years, DuPont ended up spending \$50 million defending itself—successfully—against lawsuits involving a faulty jaw implant that contained 5¢ worth of Teflon. Deep pockets were the obvious target: The small implant maker went bankrupt soon after the suits were filed.

DuPont has since stopped selling its raw materials to medical-implant makers. According to a study released on Apr. 8, three-quarters of other materials suppliers have done the same. Most sell just a few thousand dollars' worth of raw materials for biomedical implants. In the study, funded by the Health Industry Manufacturers Assn., suppliers cited fear of liability as a top reason for dropping out of the market.

The result of these defections is that manufacturers of shunts, heart valves, and other implants are jumping through hoops to get raw materials. Innovation is stagnating, and supplies of some smaller-market items are shrinking. At risk is the health of many of the 8 million Americans who depend on such devices, many of which are lifesavers.

RESTRICTION? It's time for Congress to step in and solve the problem. A law to do so has already been introduced: the Biomaterials Access Assurance Act of 1997. Spun off from the larger product-liability reform legislation vetoed by President Clinton last May, this bill protects suppliers from lawsuits in which the company's only role was to provide the raw material. Makers and sellers of implants would still be liable. But biomaterials manufacturers would be liable only if the raw material in-

volved did not meet a manufacturer's specifications. To facilitate passage in Congress, the legislation makes a specific exception for suppliers of silicone in breast implants, so that ongoing litigation could continue.

The Biomaterials Act, introduced in Congress on Feb. 26, is reasonable legislation with bipartisan support. The Health Industry Manufacturers

aware of how its material is used—and therefore responsible for subsequent failures.

The new study, conducted by Aronoff Associates, estimates that the first shortages of medical implants could start within a year, a contention the trial lawyers deny. Yet device manufacturers are clearly facing a crisis finding suppliers.

One consequence is a serious drag on innovation. At Medtronic, the Minneapolis maker of permanent heart devices, researchers discovered two new insulating materials that would have greatly improved the durability of a lead connecting a pacemaker to the heart. When both suppliers refused to sell to the company for this application, the project was shelved.

COMPROMISE. Other companies charge that money earmarked for research is being used to reformulate products and run tests on alternate suppliers' materials to meet Food & Drug Administration requirements. This can cost up to \$500,000 per implant.

Sometimes, extraordinary measures are needed to retain suppliers. Small innovators with limited resources often miss out. Biomet Inc.,

a Warsaw (Ind.) maker of artificial joints, had to indemnify its main supplier for the value of the company—an estimated \$600 million—before it would resume delivery.

The medical-implant industry is not squeaky-clean. And faulty raw materials can lead to product failures. The Biomaterials Act retains a victim's right to sue without allowing abusive legal action whose sole purpose is targeting deep pockets. Victims have rights—but so do patients who need implants to live or function. This bill offers the only clear compromise.

Freundlich is BUSINESS WEEK's science editor.



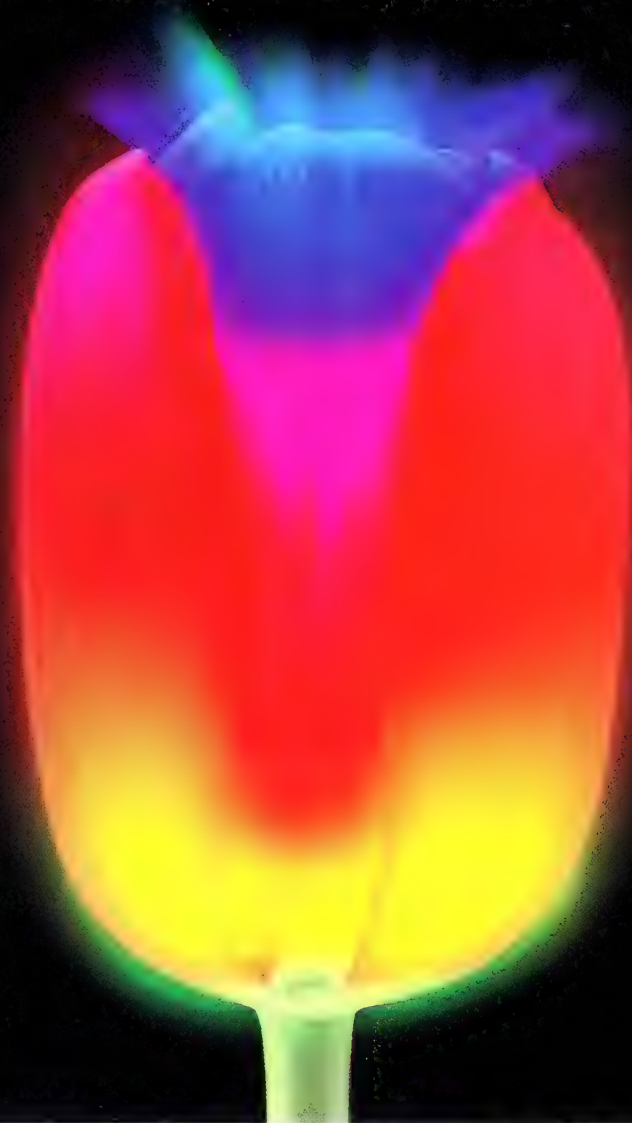
Assn. and other interested parties obviously support the bill. But so do the American College of Cardiology and the Center for Patient Advocacy, a nonprofit group that fought for longer hospital stays for new mothers and limits on HMO gag clauses. "This bill in no way takes away a patient's right to sue in the event of a faulty medical device or faulty materials," says Dr. Neil Kahanovitz, president of the center.

As expected, the main opposition to the legislation is the Association of Trial Lawyers of America. They view it as an attempt to restrict a victim's right to sue manufacturers of faulty materials. In their view, the supplier of a raw material should be

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EDITED BY NEIL GROSS

FASTER CHIPS AT NEVER FORGET

PUTER MEMORY CHIPS are notorious for development-amnesia as soon as their power is switched off. While "flash" and other so-called nonvolatile memory chips can remember without power, they are costly and difficult to use. But that may change, thanks to the discovery of "protonic" memory by a team that includes Karel Vanheusden, an assistant research professor at the University of New Mexico, and William L. Warren, a materials scientist at Sandia National Laboratories.

In late 1995, during experiments on how silicon ions can be probed for memory, the team noticed that protons, or hydrogen ions, deep within the wafer were responding to electrical signals on the surface. "We had seen these things before," says Vanheusden. Now, the team reports in the April issue of the journal *Nature* that the buried protons can be precisely controlled with standard microcircuits—and thus can be used to store data. They may provide the underpinnings for a new type of never-forget-me-not memory.

Protonic memory chips don't need the fancy programming used for other such chips. They also have "a performance advantage: flash—they can operate at very low power levels and prolong battery life in laptops," says Warren. Texas Instruments has already produced chips.

Otis Port



CUTE—AND THEY DON'T LEAVE A PUDDLE

IF YOU WHISTLE, HE MAY EMERGE SHYLY FROM THE FOREST—BUT only if he wants to. After years of confinement in Fujitsu Ltd.'s computer science laboratory in Japan, a digital pet called Fin Fin (left) is coming to PCs in America.

At first glance, Fin Fin looks like an elaborate screen saver. But he's more mysterious—and far more sophisticated. The \$60 CD-ROM-based Fin Fin behaves like a sentient creature. He is the product of eight years' work and a \$30 million investment in two hot areas of software research: artificial life, or A-life, and intelligent agents. Harsh or angry sounds, transmitted through a microphone that plugs into a Windows PC, will send him scurrying into the forest to hide. But he'll quickly learn to recognize children's voices and come when they call. "He'll hang out with you and let you feed him," says Michael Pontecorvo, director of technology at Fujitsu Interactive Inc. in San Francisco.

Another A-life game, called *Creatures*, is also making its U.S. debut. The developer, Cyberlife Technology Ltd. in Cambridge, England, says its pets already inhabit 150,000 PCs in Europe and Australia. The animated critters, called Norns (above right), hatch from eggs on your PC or Mac screen and rely on their owners to teach, maintain, and play with them. You can monitor the Norns' health and brain activity, trade them with friends over the Internet, and crossbreed them. Mindscape Inc. will market *Creatures* in August for \$40.

INNOVATIONS

■ Even small children may be drawn to tobacco and alcohol, foreshadowing problems to come. A study in the March *American Journal of Public Health* looked at tobacco and alcohol use in a sample of 1,470 third-grade and fifth-grade children. Use of the two substances strongly correlated with low scores on tests designed to measure the competence of the children in various skills.

■ Physicians from Memorial Sloan-Kettering Cancer Center and the University of Rochester's Cancer Center have developed a gene therapy that wipes out cancer cells in the livers of rats. The team of doctors removed tumor cells and infected them with a herpes simplex virus modified to prevent replication. The virus was supplied with genes that produce chemical messengers called cytokines. Implanted back in the liver, the tumor released the cytokines, which summoned the natural immune cells of the rats to attack the cancer.

SOFT LANDINGS FOR IONS

IT MAY BE THE MOLECULAR equivalent of parachutes and featherbeds. A technique developed at Purdue University gently deposits ions in precise patterns on surfaces. Ordinarily, says chemist R. Graham Cooks, ions that hit a surface crash and break apart. By cushioning their landings, Cooks has opened up exotic possibilities for catalytic reactions, data storage, and various other electronic applications.

Ions—atoms with a missing electron or one too many—are routinely manipulated with electrical fields

in machines called mass spectrometers. These devices are used to measure trace chemicals, such as pollutants in air or water, or contaminants in drugs. But Cooks writes in the journal *Science* that a mass spectrometer can also be used to place ions softly on surfaces such as gold—by attaching bulky silicon molecules to the ions, creat-



ing a parachute that slows down their descent. He can also build a sort of molecular featherbed on the gold, further cushioning the ion landings.

In addition, by creating patterns in the featherbed surface, Cooks says he can tailor more efficient catalysts for such applications as producing industrial polymers. 3M is interested in possible applications.

David Graham



SOFTWARE

LOU GERSTNER, WEB PLUMBER

IBM's new software may be just what core customers need

With \$13 billion in sales, IBM is by far the largest software company in the industry. But that's a dubious distinction considering that three-quarters of that business is in aging software for mainframe computers—a lucrative but slow-growth market. While the software industry as a whole is growing at 12%, Big Blue is turning in an anemic 4%. Meanwhile, high-fliers such as Oracle Corp. and Microsoft Corp. saw 1996 sales surge 38% and 25%, respectively.

Those stats have to gnaw at IBM Chairman Louis V. Gerstner Jr. Over the past two years, Gerstner has shelled out some \$5 billion to acquire companies in fast-growing markets,

including Lotus Development Corp., creator of the popular Notes groupware program, and Tivoli Systems, a maker of software that manages computer networks. The goal was to jump-start IBM's software business. But the new companies—though growing faster than the industry—are just not big enough to boost the bottom line. “Software growth rates

have got to be regarded as disaster,” says Bob Djurdjev, president of Annex Research, a high-tech consulting firm. **READY, SET, GO.** Big Blue out to fix all that. On Apr. 1, it's set to lay out its gap plan. It centers on software to turn its hardware—from PCs to parallel computers into sophisticated Web servers ready for Internet commerce and other cyberfunctions. A new line of powerful Web server programs, called Gofer, the Japanese strategy game, will become the high end of IBM and Lotus' Domino Web-server software.

Now, IBM says it has the pieces in place to make software business take off. “In the past, software hasn't been a growth engine, but we've turned the corner,” says John M. Thompson, IBM senior vice-

president and software group executive. His goal: to get IBM's software growth line with the industry's.

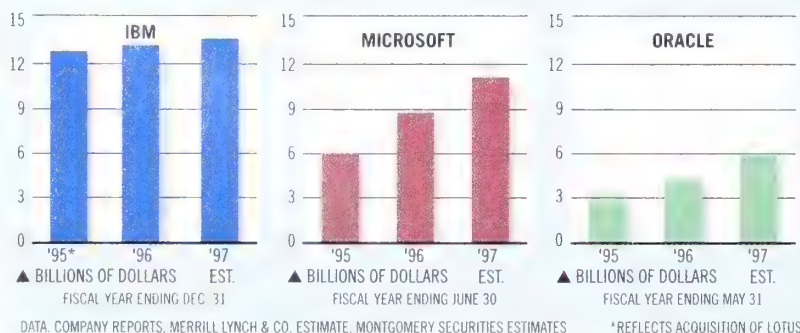
Don't expect any razzle-dazzle, though. While its rivals grab the limelight going after browsers and WebTV, IBM is focusing on a decidedly unglamorous side of the business—middleware. That's software “plumbing” that can link crucial business programs that process the thousands of transactions a second—banks, airlines, and other big customers—to the Web.

IBM could be in the right place at the right time. Web sites from Federal Express Corp.'s package-tracking system to Charles Schwab & Co.'s eSchwab online trading site tie into IBM mainframe systems. Schwab uses a Netscape Communication Corp. Web server, but it relies on Big Blue software to do the heavy lifting. “We'd be nuts to use anything other than a very proven product for a core business transaction,” says Hugh Westerme-

yer, manager of development at Schwab.

He's not the only one with that view. Japan's Fuji Bank Ltd. is testing debit card payments over the Net using IBM's database program, and new e-commerce software. Outfitter L.L. Bean and book chain Barnes & Noble Inc. also are using IBM software to do Net business.

HOW SOFTWARE SALES STACK UP



lit-card transactions, travel, bank- those are the killer apps on the In- t," says Thompson.

It is spending mightily for Web con- s. On Mar. 19, the company took jority stake in NetObjects Inc., a r of Web development tools. At ame time, the company is making r investments to develop state-of- rt Internet software, including rthing from security and encryp- programs to online retailing appli- s. Salomon Brothers Inc. analyst B. Jones estimates that on the front alone, IBM is plowing \$100 n this year into developing soft- written in Sun Microsystem Inc.'s age, which creates Web applets will run on any computer system.

SWIFT PLAN. As more business is over the Internet and corporate ets, the software that runs those s is going to be critical. "The ac- gonna be in the plumbing," says k Phillips, an analyst at Morgan ey & Co. When you take Lotus rs running Notes, connect them to traditional transaction-processing are, and throw in Tivoli software nage it all, IBM finally has a cohe- software plan for corporate intranet ms. "It's as if someone sprinkled dust on these enterprise systems," lving Wladawsky-Berger, general ger of IBM's Internet Div.

g Blue will need a lot more than dust to put it back on the software Thompson is still struggling to form his 23,000-person organization software company. He has reduced umber of development labs from 12 to bring costs in line with in- 7 norms. And he has created a sales of 5,000 IBMers dedicated to soft- It's tough for IBM to compete with n Valley firms for software talent. IBM, says Beatriz Infante, senior resident of Internet & Media Prod- t rival Oracle, "is still very much o a hardware platform strategy." ll, there are signs of progress. \$4 billion non-mainframe software ss is growing at around 30%, says pson. And new mainframe models ted by September could spark de- for high-margin software, which een flat to down. That could add some decent growth next year. 98, Merrill Lynch & Co. projects IBM software revenues will jump to \$14.5 billion. An improvement— vith Microsoft at its heels, if IBM 't do better than that, it won't be iggest software company for long. Amy Cortese in Armonk, N. Y., Ira Sager in New York

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FOR LUCENT, A SHINING MOMENT

Slimming down has helped the AT&T spin-off thrive

Not all AT&T shareholders need be gloomy these days. Granted, the company's shares are down 16% so far this year, and few analysts expect an uptick soon. But if you were holding AT&T's stock before its "trivestiture" on Sept. 30, you've done nicely with the equivalent shares you received in Lucent Technologies Inc., the former equipment-manufacturing branch. Despite the grim market for high-tech stocks, Lucent's stock has risen 16% this year, to around 54, and a stunning 100% since the initial public offering of 18% of its stock, for \$27 a share, on Apr. 4, 1996 (chart).

Why the difference? While AT&T must struggle with new competitors, regulatory uncertainty, and the high costs of entering new markets, Lucent remains what it always was—the largest supplier of phone network equipment in the world. It has some 10% of a \$200 billion global market that is blessed with costly barriers to entry and high margins. The increasing competition and deregulation that is proving so expensive for phone service providers is a boon to suppliers. The telecom equipment market is growing by 10% to 12% a year, vs. 6% for long-distance calling revenues, AT&T's primary market.

PENT-UP DEMAND. And Lucent has managed to make a good thing better. Since winning its independence, Lucent has reduced costs and racked up major wireless and network upgrade contracts from companies as diverse as SBC Communications Inc. and NextWave Wireless.

The work has paid off: On Apr. 3, the company announced that earnings for its second fiscal quarter, ended Mar. 31, should reach \$55 million to \$65 million, double most analysts' estimates, on revenues of about \$5.1 billion. The year before, the company lost \$103 million after restructuring charges on sales of \$4.6 billion. "We are building a high-performance growth company," enthuses



Lucent Chairman Henry B. Schacht, former CEO of Cummins Engine Co.

Some of that growth was inevitable: The spin-off opened the door to pent-up demand. Local phone companies and long-distance carriers were increasingly reluctant to order equipment from AT&T, a company that also was becoming a competitor on the services side. Once

Lucent was freed from AT&T, so were the order books. The equipment maker's revenue growth went from 8.3% in 1994 to 13.4% in the first nine months of 1995.

The breakup also allowed Lucent to start hacking expenses—the highest in the industry. It is two-thirds of the way through the process of cutting 23,000 jobs from its workforce, and its salaries, general, and administrative costs were pared to 24% of revenues last year, from 25.4% in 1995. The cost-cutting is already helping the bottom line. Lucent's gross margins rose to 45.9% in the first quarter, from 43.3% pre-breakup. "That should help their results over the next few years, not just a few quarters," says Bear, Stearns & Co. analyst Alex M. Cena.

There is another striking difference between Lucent and its former parent. While AT&T insiders say morale there is as low as it has ever been, Lucent employees are jazzed. A recent survey of 64% of the company's 121,000 employees by an outside polling firm found that 79% are optimistic about the company's future. On the down side, 5%

ON DECK:
McGinn and Schacht are focusing on the next generation of technology, such as data switches for the Internet

say Lucent is slow not quick to take advantage of new opportunities.

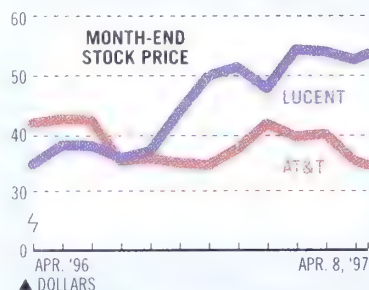
One such opportunity could be the data network market, where Lucent has only marginal presence. Schacht says the company plans

increase its offerings in this area, not in the highly competitive market for routers and hubs. "There's no sense in our replicating what other people have done," says Schacht. Instead, he wants to focus on the next generation networking technology, such as power data switches for the Internet. So Schacht and President Richard A. McGinn spend three hours every other week at Lucent Labs and are devoting 11% of revenue to research and development.

Schacht also wants to beef up the software side of Lucent's business, which carries higher margins than hardware. One of Lucent's key software products, a program that allows carriers to keep their local phone numbers even when switching carriers, is starting to win orders as local competition dries up—BellSouth Corp. and Ameritex Corp. have both recently purchased software. AT&T may be wincing from the new competition, but it gets little sympathy from Lucent shareholders.

By Catherine Arnst in New York

LUCENT'S ASCENT VS. AT&T'S DECLINE



DATA: BLOOMBERG FINANCIAL MARKETS

POWER DUO

Apple clonemaker Power Computing has big plans. Now it has two big guns

Stephen S. Kahng's Power Computing Corp. is the fastest-growing computer startup of the 1990s. Founded in mid-1993, it should hit \$100 million in sales in 1997, analysts say. Power makes superfast products, uses the direct-sales model that made Computer Corp. and Gateway 2000 Wall Street stars, and has been prof-

it all along. Yet Kahng spent more than a year looking for a banker willing to take it public. The problem: Power makes clones of iMacintosh computers, the top product of troubled Apple Computer Inc. Says a venture investment banker who declined to handle an initial public offering for Power: "Steve has been doing a wonderful job, but it's a terrible situation." Now, Kahng is out to change that, and he has brought in former Dell marketing whiz Joel J. Kocher to help. Their plan is to expand beyond the relative obscurity of the Mac market to the cutthroat PC market. "What we sell doesn't matter," says Kahng. "We want to build the best computer company in the world."

Early, diversification was Kahng's plan from the start—thus his relentless pursuit of Kocher (pro-

nounced KO-her), who presided over Dell's huge growth in the early 1990s. Kahng first approached Kocher 10 days after he left Dell in 1994. He persisted even after Kocher joined Tucson-based software maker Artisoft Inc., and last November, Kocher joined Power as president and operations chief. Now the stakes are even higher than expected.

As Power readies its thrust into PCs, Apple is considering changes in its licensing strategy that could undermine Power's core business. And Apple's ongoing problems—as well as uncertainty about a possible Apple takeover by Oracle Corp. chief Lawrence J. Ellison—could keep Power's IPO on hold, depriving the company of a cash cushion as it

tries to forge a niche in PCs. **WORSHIPED.** Kahng and Kocher present a striking contrast. Kahng, a soft-spoken 47, is a prototypical engineer—"the nerdiest of the nerds," says venture capitalist Paul H.J. Kim, a friend and Power investor. Kocher, 40, couldn't be more out in front. At Dell, he was worshiped for his elaborate pep rallies and impassioned speeches. Kocher "demands, inspires, attracts, and coaches greatness," says Savino Ferrales, Power's new human resources vice-president, who worked with him at Dell. Kocher also helped Dell perfect its approach to direct selling, a key to Power's strategy. Says Power Vice-Chairman Enzo Torresi: "Steve's the world expert in product efficiency, and Joel knows best how to deliver technology to market."

In his few months on the job, Kocher has tripled capacity and begun construc-



Joel J. Kocher

President and Chief Operating Officer
AGE 40

ROAD TO FAME Oversaw Dell Computer's growth in the early 1990s

STRENGTHS Operational smarts

PERSONALITY Driven, gung ho, team player

Stephen S. Kahng

Chairman and CEO
AGE 47

CLAIM TO FAME Designed Leading Edge PC in the 1980s

STRENGTHS Technical smarts

PERSONALITY Soft-spoken, self-deprecating

The Power of Partnership is

*Simply
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ZURICH

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tion of PowerTown, a long-planned 150-acre headquarters in Georgetown, Tex. He's spending millions on information systems and communications gear, laying the groundwork, he says, for a multibillion-dollar company. He says the push into PCs could come in 1998. Other insiders say it could happen this summer.

Kocher's goal is to avoid the operational blowouts that plagued him at Dell. In 1994, as Dell fought to hold together its overtaxed systems, Motorola Inc. vet-

ation of software. And Apple may prove more of a rival in the future. On Apr. 4, for the first time since Power set up shop, Apple beat the cloners to market with Macs featuring the fastest chips.

Still, Power is counting on growth in Macs. It recently set up shop in Europe and Japan and assembled a corporate sales team, and it hopes to field a portable Mac clone soon. Should Ellison buy Apple, Power's Mac profile could get even bigger. Industry executives say he'd

make to tech-starved Mac customers but one poorly conceived PC product could quickly lead to losses.

Still, no one is inclined to oust Kahng and Kocher out. Power represents the second time Kahng has helped launch a clone industry. A decade ago he designed the Leading Edge PC, the first low-priced alternative to IBM's product. The consulting career that followed left him with a circle of powerful friends. While rivals scrambled for memory chips



Even though Power has been steadily profitable

eran Morton L. Topfer was brought in as co-CEO. Kocher quit soon after. "I know from experience," he says, "that the time to prepare to be a \$2 billion company is not when you're a \$2 billion company."

The many obstacles Power faces mean Kahng and Kocher must execute almost flawlessly. The market share of Macs and Mac clones has fallen from 7.9% in 1994 to a projected 5.4% this year. Now, Apple says it may more than double licensing fees, which one investor says could halve Power's paltry 5% net margins. Worse, the companies disagree about whether Power has rights to Apple's next gener-

probably focus on licensing software and sell off Apple's hardware units—and Kahng says Power could be a buyer.

The move to Windows, whenever it comes, will be as tricky as any curves Apple might throw. Creating a niche among the hordes of PC makers is a monumental challenge. And Power won't get special treatment from chipmaker Intel Corp., as it has from IBM and Motorola, who see it as an ally in promoting their PowerPC chips. If there's no IPO, moreover, Power will have little margin for error when it does diversify. Power has been able to sell all it can

in 1995, Kahng had all he needed thanks to ties to Korean chipmaker Samsung Electronics Co. "Steve is very, very good at working behind the scenes," says Kevin Bohren, president of Traveler Software Inc. and a former Computer Corp. executive.

His new No. 2, Kocher, made his mark early, as a top salesman for Radio Shack at age 24, and he ran most of Dell's operations before he quit. Joining struggling Artisoft seems to have been a first step, yet Kocher's charisma is undiminished. He has persuaded several old colleagues to take pay cuts to join him at Power.

David.

And Goliath.



rapidly putting his stamp on the maker. At his first all-company meeting, the roar of choppers shook the as fatigue-clad managers ran in, singing slogans and tossing leaflets. g slammed down a gavel, declaring: "Cultural Revolution has begun!" gave the floor to Kocher, who read ghty letter from a customer lamng Power's service. Kocher then duced the customer, who went on laining. "Everyone was expecting a ah session, but it was more like canal," recalls Kocher happily. He mported a trademark gambit, re-

his sleeves and show people the way."

Kocher's flamboyant leadership makes him a foil for Kahng, whose reticence has always inspired teasing. Even Power employees consider him fair game. Marketing manager Mike Rosenfelt once decided to offer Kahng's Mercedes, which had 240,000 miles on it, as a booby prize in a raffle. "Whatever it takes to give a good show," shrugs Kahng. At January's Macworld trade show, Power's posters portrayed Kahng as a fierce revolutionary out to rescue the Mac. Techie attendees ate it up. At an after-hours party featuring singer Lyle

wealthy. He and his wife of many years, Choongja, own a sprawling home down the street from such industry luminaries as Intel's Andrew S. Grove. Yet Kahng, who controls 28% of Power, is famous for thrift—witness his aging Mercedes. And since moving Power to Austin in 1995, he has lived most of the time in an apartment there. (Kocher has invested \$1 million in Power since he joined.)

To get the IPO that will let them proceed aggressively, Kahng and Kocher must show that Power can succeed beyond the Mac market. Vice-Chairman Torresi says the key is not selling Win-

e's woes have repeatedly torpedoed IPO plans

ng staffers to wear fatigues every ay, "Fight Back for the Customer" He charges staffers \$1 a minute if come late to meetings and \$2 y time their cellular phones ring. cher's needle seems stuck on "mo- e." Second wife Anne Marie, once s government sales chief, recalls he discovered that her adoles- son was a lackadaisical basketball r. He drilled the boy an hour a until he made the freshman team. z, Anthony is an animal on the ," she says. "That's what makes so unique: He's willing to roll up

Lovett, Kahng drew thunderous applause after mumbling an introduction, hesitantly shaking his fist, and softly intoning: "Fight back for the Mac!"

However mild-mannered, Kahng is focused. When he moved to the U.S. from Korea at 19, he already hoped to run a high-tech company. After earning a computer-science degree at the University of Michigan at Ann Arbor, he headed to Silicon Valley as an IBM mainframe engineer. Technology has absorbed him ever since. Says Kim: "He only sparks up when you talk work."

That singlemindedness has made him

tel PCs but persuading Wall Street that Power could. "Readiness is very important," he says.

Power's not quite ready yet. While the IPO is tentatively scheduled for May, it could be delayed again, say Wall Streeters. Notes one observer: "Every time Power wants to pull out into the passing lane, they're covered with black smoke"—more bad news about Apple. But Apple could be slowing traffic for some time to come. Sooner or later, Kocher and Kahng have to make their move.

By Peter Burrows in Cupertino, Calif.

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A CURIOUSLY STRONG CAMPAIGN

How Leo Burnett turned an obscure breath mint into a fad

Seattle, the city that gave us overpriced coffee, cyberbars, and grunge, is now ground zero in a miniboom for a 200-year-old breath mint called Altoids. "If someone's doing a mint, it's going to be an Altoid," says 29-year-old Eddie Lloyd, an online graphic designer at Seattle's Capitol Hill Internet Café.

Of course, fads are only born in Seattle. They are nurtured into full-fledged phenomena with careful marketing devised elsewhere—in the case of Altoids, the Chicago offices of ad agency Leo Burnett Co. Burnett's quirky ads for the "curiously strong" peppermints in the hinged tin box have propelled the brand from a market share too small to detect to just under 10%

in two years. Helped by its unusual ads, Altoids has made the risky leap from underground local favorite to national brand while keeping its marketing machinery well hidden. The funky packaging says "Made in Great Britain" but includes no mention of megamarketer Kraft Foods Inc., which owns the brand, or Kraft parent Philip Morris Cos.

"CYNICAL, SMART." The white, thumb-nail-size mints, which originated in Britain as a cure for upset stomach, built a devoted word-of-mouth following among the heavy-smoking, coffee-guzzling Seattle club set in the 1980s. Still, despite impressive sales gains in the Northwest, Altoids were barely known in the rest of the country, and few retailers were willing to give the old-fashioned boxes shelf space.

Then in 1993, the British confectioner Callard & Bowser, which makes Altoids, was bought by Kraft. Although the obscure mints were barely a blip on the Kraft radar screen, marketing manager Mark Sugden, who had been in charge of Altoids before the merger, was sure

the brand could grow. After all, he had read the gushing three-, four-, and five-page fan letters from Altoids lovers.

In 1994, he persuaded Kraft to hire Burnett for a modest campaign. Realizing that a big part of Altoids' cachet was the product's low profile—and limited by a \$1 million budget—the team rejected the conventional TV commercials used by bigger brands such as Tic Tac and Certs. Their ads had to publicize Altoids without making them seem too mainstream. "We didn't want to betray those who already were committed," says Sugden. "The key was to remain consistent with everything it stood for."

Burnett came up with a series of distinctive posters that ran in bus shelters, subways, and alternative weeklies in just a handful of cities in 1995. The award-winning series included a dominatrix clad in leopard print above the tag line "Pleasure in Pain" and a figure in a silver spacesuit holding an Altoids tin. "We were talking to a cynical, smart, cutting-edge audience, and nothing mediocre was going to sell," says Burnett Creative Director Steffan Postaer. Last year, the budget was bumped up to more than \$7 million, and the cam-



ALToids SHOWS ITS MUSCLE



FRESH APPROACH: Burnett's distinctive pre-ads play up Altoids' retro appeal

paign reached most urban markets. One exception: Seattle, where marketers feared even their ironic, retro ads would alienate Altoids' original counterculture customers.

Kraft declines to break out sales, but in the \$237 million breath-freshener category, Altoids has been the star performer, according to market research firm Information Resources Inc. in Chicago. IRI, which tracks sales in big chains and drugstores, figures Altoids rocketed ahead by almost a third last year, to \$23.2 million. Adding in other channels, such as convenience stores could bring the total to more than \$40 million.

Altoids' success has brought on a slew of copycat competitors. At least five new extra-strength mints have been unleashed on the market in the past year. The newcomers readily acknowledge their debt to the pioneer. "With the success of Altoids," says Gerrit J. Verburg, distributor of German-made Fresch, "we can get shelf space we couldn't get before."

Kraft isn't resting on its laurels. It plans to introduce a new wintergreen flavor in June and with it a new ad campaign. How big can Altoids get and how

be cool? No one knows. Kraft, the company behind such brand giants as Velvee and Jell-O, finding out may be the biggest challenge. By Pat Wechsler in New York



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CITIES

MOTOWN IN MOTION

At last, the Big Three loosen up their wallets for the old hometown

It was a phone call Detroit Mayor Dennis W. Archer will never forget. Chrysler Chairman Robert J. Eaton was on the line from abroad in March, 1995, with an offer. "We're going to build an engine plant," Eaton said. "Do you have any interest?" The mayor's reaction: "I could have jumped through the phone to say thank you very much."

Today, construction crews are hustling to complete the \$900 million factory on 107 industrial acres on Detroit's dilapidated East Side. For a city that has lost 40% of both its jobs and population since the auto industry's glory days in the 1960s, Chrysler Corp.'s investment represents a step toward revival. And there's more to come. On Apr. 9, the auto maker announced a series of capital projects that will bring its investment in the city to \$2.1 billion.



Can Detroit save itself? The city's 144 square miles, among the most blighted in urban America, still are pockmarked with stretches of crumbling homes and abandoned factories. For the first time in decades, though, there is hope in Motown. With an ambitious, en-

ergetic mayor as their catalyst, the Three and other corporate heavyweights finally have decided to repair their ailing hometown.

General Motors Corp. is moving headquarters to the riverfront Renaissance Center. The fortresslike complex, 25% vacant, has been an albatross on the city's office market since it was erected in 1976. A branch of the Ford family has put up \$70 million along with \$40 million from Ford Motor Co.

to build a downtown football stadium for the Lions right next to Little Caesars' new pizza magnate Michael Ilitch's new baseball park for the Tigers. And local banks have anted up \$1 billion in loan commitments for businesses in Detroit's federal empowerment zone.

Motown's corporations could have poured money into the suburbs and exurbs. But "frankly, we are embarrassed that Detroit has deteriorated beyond any other American city," Chrysler's Eaton says. The Big Three want to erase the negative im-

MAYOR ARCHER has been the catalyst in changing the carmakers' mindset

that Detroit's condition on their own business. They're also getting pri-

ority on the cheap: Chrysler received an \$87 million tax abatement for its engine plant, and GM bought the Renaissance Center at the rock-bottom price of \$72 million.

FRIEND OF BILL. But none of it would be happening without Archer, a 55-year-old lawyer and former judge friend with President Clinton and well-connected in Democratic circles. Archer is a politician who has won CEOs' trust, like his irascible predecessor, Coleman A. Young. "The previous political leadership was extremely difficult to do with," says William Clay Ford Jr., Ford director and major stockholder whose family owns the Lions. Archer, by contrast, has aggressively courted the corporate community.

Archer is emerging as one of the nation's most prominent African American politicians, with chances to become Michigan's first black governor or make a run for a U.S. Senate seat. The product of a poor Detroit family, he taught in the city's public schools while

Hope For Detroit?

NEW INVESTMENTS ARE FLOWING IN...

- ▶ Chrysler invests \$2.1 billion, including \$900 million for an engine plant
- ▶ General Motors is spending \$250 million for plant improvements and \$72 million to buy the Renaissance Center
- ▶ A total of \$505 million in private and public funds is committed for pro football and baseball stadiums downtown

...AND SOME VITAL SIGNS ARE IMPROVING

- ▶ Unemployment rate dropped to 9% last year from 16% in 1993
- ▶ Real estate values are up 10% in some neighborhoods
- ▶ Crime rate is down 8% since 1995

DATA: BUSINESS WEEK

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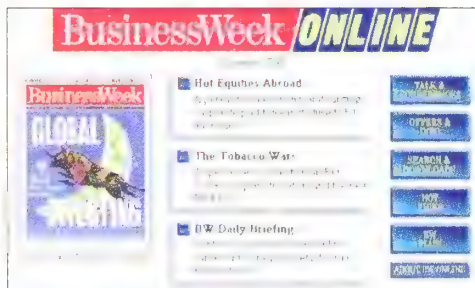
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g law school, then became a trial
r and ultimately, a Michigan
ne Court justice. Now, the White
"loves him," says an Adminis-
source. He passed up a potential
st post, in fact, to seek reelection
ll. "A second term is very impor-
solidify all the things we have
l," Archer says.

ng Detroit would be the ultimate
turnaround. This is a city of 1
people that, in 1993, had exactly
ilding permit taken out for a new
Businesses fled Detroit in droves
he years because of high taxes,
al city services, frightening crime

In 1993, only one
mebuilding permit
was issued in the
entire city

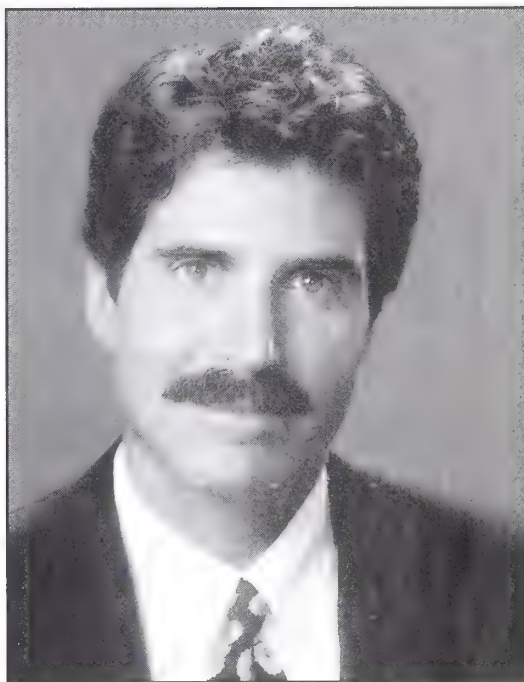
and tense race relations. Even
downtown streets are eerily va-
t night and on weekends. "I was
those asking, how much worse
get?" says GM Chairman John F.
r.

outlook was so bleak that GM in-
say the giant auto maker had
to uproot its Detroit headquar-
nd move to suburban Warren.
ame Archer. In private practice,
gest client was GM. So Smith and
Big Three execs heavily backed
n for mayor. And once he took
Archer recruited local execs for
nsition team, met regularly with
ss leaders, and attended auto
and Big Three events that Young
st interest in.

RICH. Business leaders returned
ow of affection. Smith and GM
hairman Harry J. Pearce, in par-
, championed the purchase of the
ssance Center last year to replace
to maker's antiquated headquar-
i another part of town. GM since
veiled plans for a huge atrium
aterfront park at the RenCen to
ate some life in the commercial
t. "We don't have a downtown
concedes Archer.

vas, of course, the auto industry
ollowed out Detroit in the first
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GM closed three major factories in
vest Detroit that employed more
,000 workers. "When those plants
it just about closed the neighbor-
down," says Carmen Munoz, co-

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Social Issues

owner of a small supplier that makes parts for engines and transmissions. According to census data, Detroit lost 270,000 jobs between 1960 and 1990, mostly in autos and related businesses.

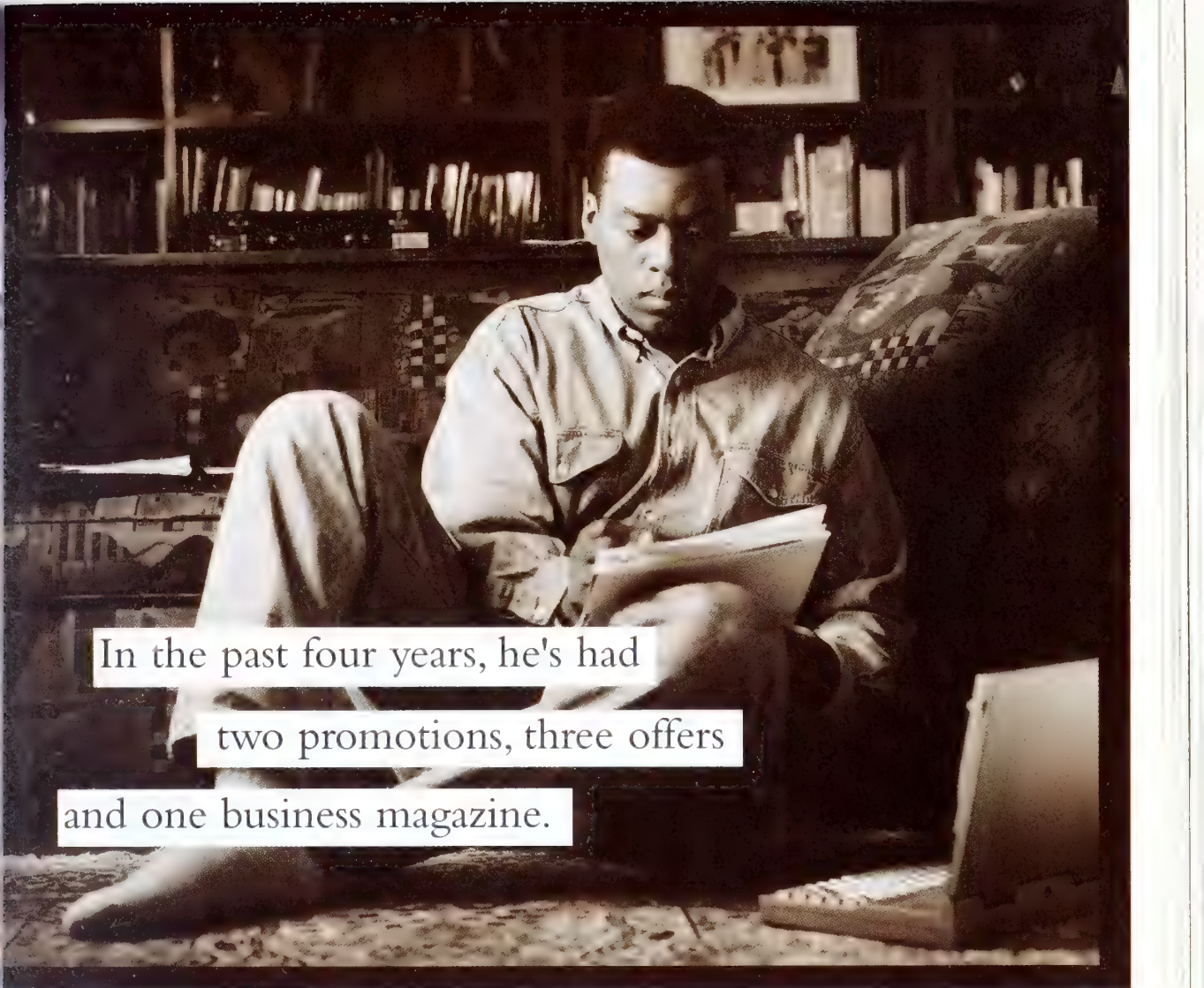
Bringing those jobs back will require more than an engine plant and GM's headquarters: Detroit needs scores of small businesses to follow the auto maker's lead. "There is more land and space than people realize," says Katherine Beebe, an urban planner who directs the citywide land-use task force. Archer points to the federal empowerment zones, which gives tax credits and other aid to employers in an 18-square-mile area, to start: The scheme could create as many as 9,000 jobs. One beneficiary is the Hispanic Manufacturing Center, housed in a fledgling industrial park on the site of a onetime GM assembly plant. Munoz' company is one of four so far to move in.

Empowerment zones, though, are one of the few remaining federal programs aimed at cities; gone are such development levers as action grants and industrial revenue bonds. So Archer is determined to make the city's private sector partner instead. To that end, he has converted a once antagonistic city hall into a business-friendly place. After inheriting a \$54 million deficit, he balanced the city budget in the 1994-95 fiscal year, leading Standard & Poor's Corp. and Moody's Investors Service to restore Detroit's credit rating to investment grade this year. More important, he has tried to unspool the red tape that used to keep developers waiting for months for the simplest permit. Before Archer, "there was no confidence you could get things done," says Bernard Gliberman, a suburban developer building his first condominium projects in the city.

CASINOS COMING. On the surface, Detroit doesn't look much different than it did the day Archer took office. The stadiums and entertainment venues are at least three years away. Voters approved three casinos in Detroit last year, but it will be months before Archer even chooses among several companies competing to bring their slot machines to Detroit. Hoped-for retail shops and new housing downtown are hard to envision on the city's barren boulevards.

Still, boosters insist the revival is real. "The cynics have ruled in this town for a long time," says William Clay Ford Jr. "But people like our family, the Belts, and the Big Three have their money on the line now. I wouldn't bet against us." That's good news for Detroit, since it won't get out of the ditch without them.

By Bill Vlasic in Detroit

A black and white photograph of a man sitting on a couch in a library or study. He is wearing a light-colored button-down shirt and jeans, and is looking down at a magazine or book he is holding. The background is filled with bookshelves. A laptop is open on the couch next to him.

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WILL THE GE MAGIC WORK AT STANLEY?

The tough new CEO will cut costs first, then expand

It was Jan. 14, and Stanley Works had spent \$1 million preparing a site just outside Denver for a new \$10 million factory. An official groundbreaking ceremony was only a day away. But none of that mattered to new Chief Executive John M. Trani, who thought the proposed facility added unnecessary capacity. Not yet three weeks into his job, Trani decided the plant had to go. "I told them if they had dug a hole, to put the dirt back in," he says.

Tough? Stanley execs are just getting an early dose of the medicine favored by the 52-year-old former General Electric Co. fast-tracker. Trani made his name transforming GE's once sluggish medical-equipment unit into one of the brightest stars in John F. Welch Jr.'s corporate universe. Immediately after taking over the GE unit, Trani cut \$80 million in costs and over the next decade boosted sales from \$1.2 billion to \$4 billion. Now, he's planning an overhaul at Stanley.

Trani has his work cut out for him. As the world's leading toolmaker, Stanley Works in New Britain, Conn., is an old-line company in a mature industry. Close to three-quarters of revenues and 81% of operating earnings last year came from tools—everything from screwdrivers to industrial tools used in auto plants and elsewhere. Although it remains the leader—with 20% of the \$12 billion global hand-tool market—it has been buffeted since 1990 on all fronts. Low-cost imports have snatched nearly 25% of the U.S. market, aggressive power-tool makers such as Black & Decker Corp. have grabbed customers, and retailers such as Home



TRANI: A GE star with turnaround credentials

Depot Inc. have squeezed margins.

Under longtime CEO Richard H. Ayers, Stanley struggled to counter these problems. Even an extensive restructuring launched in 1995 had little impact. Sales were virtually flat, at \$2.67 billion for 1996, while operating profits settled, after several rocky years, at

\$251 million. The culprit, says one key manager who has followed the company for years: a genteel, country atmosphere at the 154-year-old company. Adds analyst Richard A. Henders Pershing Investment Research: "The company was not a mismanaged company. It just wasn't managed as aggressively as it could be."

Indeed, after a downturn in 1995—a year of record demand, intense competition, and high raw-material prices—Stanley's earnings cut Ayers' compensation by 12%. The then-53-year-old executive soon announced plans to retire early. "I think he knew he could not take the company to the next step," says Salomon Brothers Inc. analyst Ivy Schneider.

OPTIONS. Although Trani was not cited as a possible successor to Ayers, now 61, GE insiders say he was out of the running by late 1996. To Stanley, Trani seems perfect: an executive with global expertise who had already done one turnaround. "We want to do it better, and he is the man to lead us," says Edgar R. Fiedler, Stanley director since 1976.

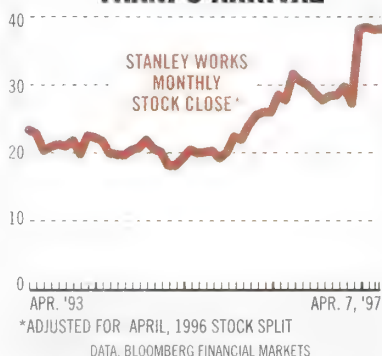
Wall Street appears to agree. Despite a hefty price tag—Trani received a minimum salary of \$1.5 million, a signing bonus worth \$10 million at current stock prices, and a big options package—investors have jumped on Stanley's stock. After languishing for most of the '90s, its shares have risen some 41%, to roughly 38, since he arrived.

Now Trani must work his magic. With plans straight out of the GE playbook, it's no surprise that cost-cutting is his top priority. Although Ayers closed factories, mostly in the U.S., and trimmed the payroll 5%, to 19,000, Trani says more closings and layoffs are in store. His aim: to turn Stanley not only into the market leader in each product category but also the low-cost producer. "We're not playing the game to be in the middle of the pack," he says.

To get to the top, however, Trani surprised some on Wall Street when he plans to focus on the U.S. Stanley extolled his global experience when he hired him, but Trani downplays foreign expansion. "You need to win locally before you can play globally," he says.

Trani plans to play hardball with rivals in a fragmented domestic market.

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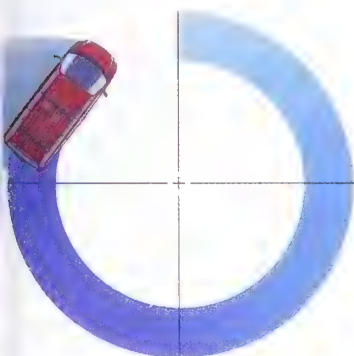


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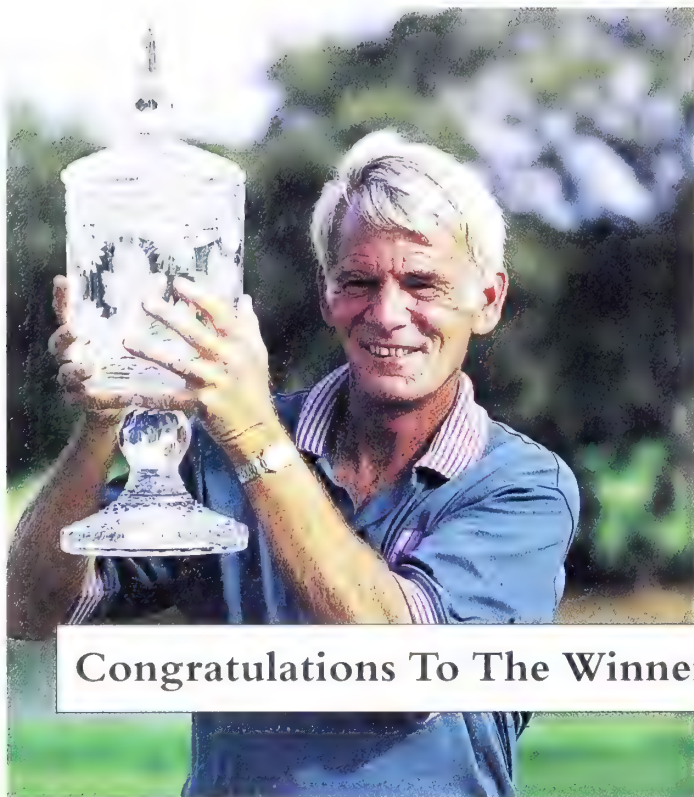


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that consists of a few heavy hitters such as Snap-On Tool Corp. and Craftsman Tools, as well as a host of smaller manufacturers here and abroad. "One of the problems is to make life difficult for those who want to stay small," he says. Translation: Observers expect Trani to "force consolidation upon the industry," says Merrill Lynch & Co. analyst Jonathan Goldfarb. Trani also wants to promote the Stanley name far more actively. A more sophisticated marketing strategy will also bring more innovative packaging and pricing combinations of complementary tools. "There are no mature markets," says Trani. "Only mature minds."

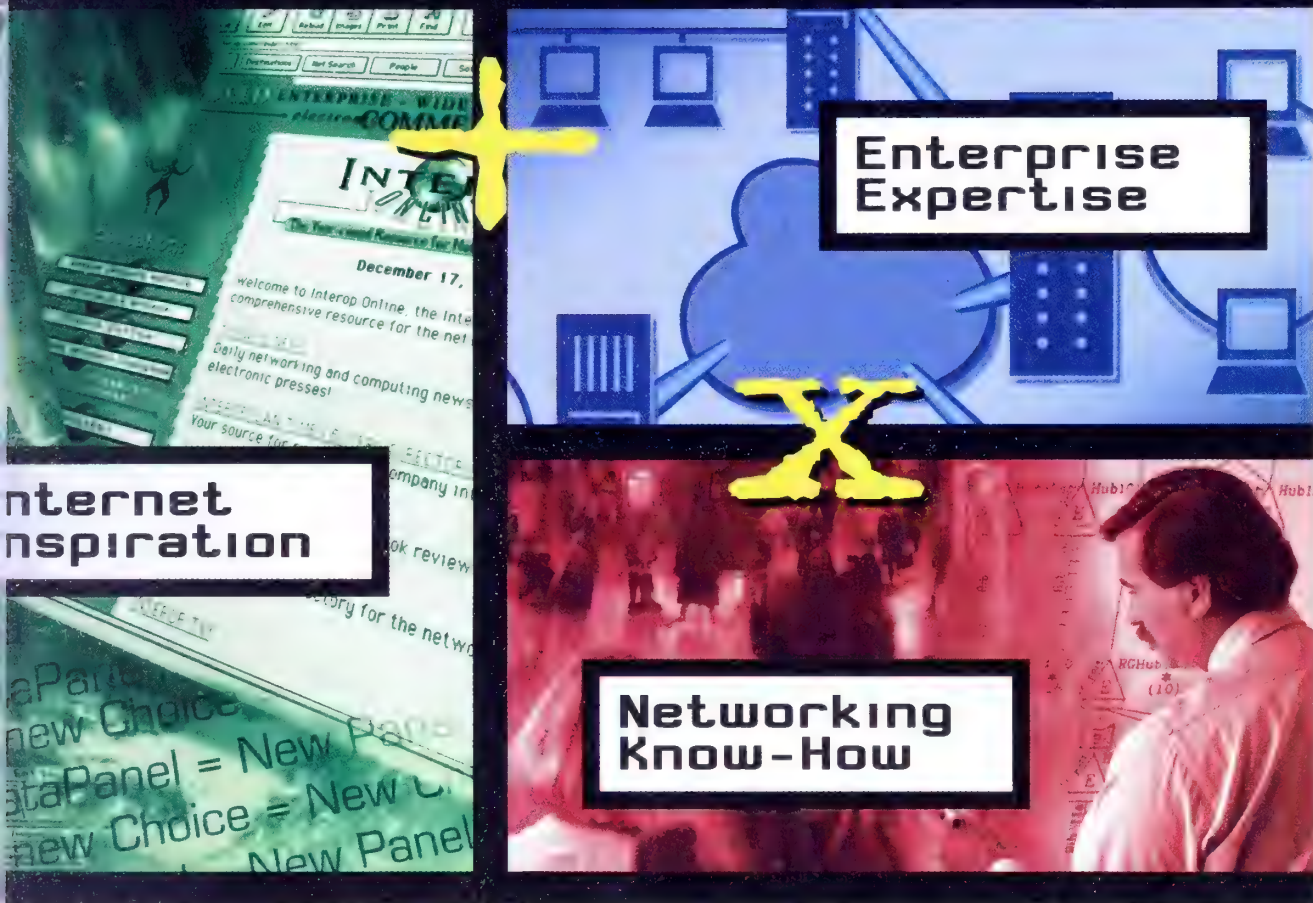
It won't be easy—but he does have a big advantage. "The Stanley brand is a very strong brand," says J. Ruf, a partner at New England Consulting Group in Westport, Conn. Trani also starts with one big hand: Stanley's prices are often higher than those of lesser-known rivals, or even its own brands. The suggested retail price for a Stanley 25-foot tape measure is \$9.99, for example, 25% more than a similar Ace Hardware model; at \$4.99, Stanley's premium-grade hammer costs more than the Ace version by 33%. While professional builders might fork over the big dollars, weekend home warriors balk at not. "Their prices are outrageous," says Ari Kambouris, a 34-year-old do-it-yourselfer on a recent trip to Home Depot in Secaucus, N.J. "Stanley's quality and durability aren't that much better."

ACHILLES' HEEL. Even if cost-cutting helps lower prices, Trani must find other ways to grow. "New-product development has always been Stanley's Achilles heel," says J. Scott Jeffords, managing more than a million Stanley shares for Capital Management Group at Stanley Union Corp. For years, Stanley has resisted a move into power tools because of weak margins, and Trani agrees. Somewhere, however, options are limitless and so far, Trani has offered few specifics. Using a technique he employed at Home Depot, he wants to move into handling such service needs as tool-inventory management for industrial customers. And eventually, Trani will attack the global market, which brought 28% of 1996 sales through joint ventures and acquisitions.

Will it be enough? Wall Street doesn't hold out much, if any, hope Trani can hit the \$4 billion revenue mark that Ace has set for the year 2000. Instead, investors are counting on a rise in profitability if Trani's cuts take hold. He may be the fixer-upper, but the market is banking on that old GE magic.

By Susan Jackson, with Tim Sullivan in New Britain, Conn.

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LIVING IT UP: THE ELITE PRIVATE CLUBS

Ever since the Duquesne Club opened its doors in 1873, the captains of industry have swagged through them. Through the years, the all-white, all-male likes of Carnegie, Frick, Schwab, and Mellon have been succeeded by lesser-known chief executives and entrepreneurs of all genders and colors. But still they dine and talk business in the handsome brownstone quarters of the legendary city club in Pittsburgh.

What's remarkable, perhaps, is that the Duquesne and many other private clubs continue to thrive in an age of egalitarianism and fierce competition. Not all, of course, have survived the death of the three-Martini lunch and tax-deductibility rules

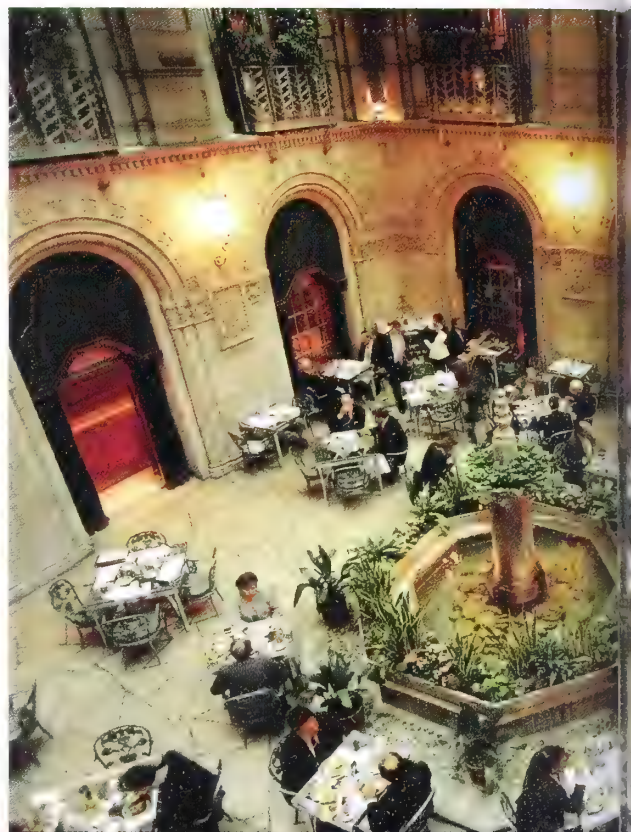
that once favored lavish business spending. Yet the top private clubs continue to entice the rich, the powerful, and the successful.

LEISURE

Which clubs are tops? To find out, John R. Sibbald Associates Inc., a search firm specializing in recruiting club managers, surveyed 5,000 general managers, presidents, directors, and owners of private clubs. They were asked to rank the "very best" clubs, and those that are the "best managed and most successful" in five categories: city clubs, full-service country clubs, golf clubs, athletic clubs, and yacht clubs.

Although some clubs straddle two or three categories, they are listed in the single area in which they excel.

Truth be told, it would be nearly impossi-



GREAT ROOM: The garden patio at Pittsburgh's Duquesne Club

ble to survey a good enough cross section of the members of all these private clubs. But this is the most extensive effort. Many presidents or directors of these clubs are members of other clubs or have at least checked out the competition. Many of the general managers have worked for several of them, as well.

The grand and the famous—and the secretive—top

the most-respected lists. The Duquesne, with its 60 dining rooms and 30 guest rooms, sits atop the city club scene. Atlanta's opulent Cherokee Town & Country Club won high honors as the best country club. Tucked away in the Pine Barrens of New Jersey, the impeccably groomed Pine Valley Golf Club earns top rank among private golf clubs. The Atlanta Athletic Club and the Grosse Pointe



TOP CITY CLUBS

NAME/LOCATION/FOUNDED	COMMENTS
1. DUQUESNE CLUB Pittsburgh 1873	Legendary club where Carnegie dined; still boasts finest cuisine
2. CALIFORNIA CLUB Los Angeles 1888	Strikingly beautiful with 1,800 members and a \$9,000 initiation fee
3. METROPOLITAN CLUB New York 1891	Old World elegance for 1,600 members; initiation fee of \$3,000
4. PACIFIC UNION CLUB San Francisco 1852	A bit stuffy and staid; has the fewest members—just 950
5. JONATHAN CLUB Los Angeles 1895	Offers 3,200 members downtown locale and a beach club

NAME/LOCATION/FOUNDED	COMMENTS
6. CAPITAL CITY CLUB Atlanta 1883	Pricely \$40,000 initiation fee includes country club membership
7. UNION LEAGUE CLUB Chicago 1879	Boasts one of the finest art collections of any private club in the world
8. CHICAGO CLUB Chicago 1869	The meeting place for Chicago's business elite; busy for breakfast and lunch
9. UNIVERSITY CLUB Chicago 1887	Oxford and Cambridge transplanted; with \$750 initiation fee, academics dominate
10. MINNEAPOLIS CLUB Minneapolis 1883	Nearly as English as Boodles, it's the clubbiest of city clubs, with 1,100 members

DATA: JOHN R. SIBBALD ASSOCIATES INC., BUSINESS WEEK



...ant of Carnegie and Mellon

Club take the No. 1 in their categories of e clubs.

re than bragging rights at stake here.

ging to the club still s a mea- of pres- and sta- n mem- t allows e to the powerful and cted in a com-

y—great for con- ngru lawyers, bankers, o-hunters—and it pro- a way to impress out- n visitors and clients. as important, private remain a comfy retreat the day's pressures, a to meet friends, enjoy a or meal, or just read— without the inconven- es of today's crowded ervice-less culture.

bs offer exclusivity, codes, and, more often not, Old World ambi- To enter any of the top ubs is to step back into

a past when guests repaired to the smoking room to enjoy a fine cigar and a single-malt Scotch.

For the travel- ing executive, pri- vate clubs offer some added advan- tages. Besides le- gions of friendly staffers often likely to know you by name, clubs provide a homier feeling when you're on the road, as well as more comfortable meeting rooms. That's why more than a third of the Duquesne's mem- bership is from outside the area. Better yet, most clubs lower their fees for nonresi- dents, making some of them com- petitive with full- service luxury hot- els. The Atlanta

Athletic Club's \$40,000 initia- tion fee, for instance, is just \$6,000 for all members who live outside a 75-mile radius

of the club. Such re- duced rates make memberships an attractive idea for out-of- town profes- sionals who regularly vis- it a city.

Like most

of the city clubs on the list, the Chicago Club is a bit stuffy and staid, with fusty old portraits that hang in the high-ceilinged eating sal- ons. "We frown on busi- ness documents in the dining room," allows Frank Stover, general manager of the club, whose members include AT&T President John Walter and most of the big-company CEOs in Chicago. "It's safe and quiet, and you can hide there," says member Fred Wackerle, a partner at the search firm McFeely Wack- erle Shulman.

OAKS AND OCEANS. Still, these posh clubs are hardly fossilized remnants from Jay Gatsby's day. The Duquesne, for example, boasts a new health and fitness center, with a staff of exercise physiolo- gists. Membership in the tony and cavernous New York Athletic Club allows one to



take advan- tage of an el- eгант retreat 35 minutes from the city on Travers Is- land in Long Island Sound. There, members can sail, swim, or imbibe fine wine.

Moreover, members of these private clubs can par- take in often grand and breathtaking environments. The clubhouse of the Grosse Pointe Yacht Club is an Ital- ian Renaissance-style build- ing with a 187-foot bell tower on Lake St. Clair that has become a historic landmark. The expansive approach to Houston's River Oaks Coun- try Club is lined with stately old oaks, draped with Spanish moss. The clubhouse looks like 1600 Pennsylvania Ave. And Cypress Point Club in Pebble Beach, Calif., provides golfers spectacular seaside holes along the roaring Pa- cific Ocean.

The exclusiveness of pri- vate clubs also means that they provide comfort far away from crowds and, as some confess, the riffraff. At the Bob O'Link Golf Club outside Chicago, there are no tee times and only 235 mem-

TOP GOLF CLUBS

NAME/LOCATION/FOUNDED	DETAILS
1. PINE VALLEY Clementon, N.J. 1913	No. 1-ranked course tucked away in Pine Barrens with rustic clubhouse
2. AUGUSTA NATIONAL Augusta, Ga. 1933	Home of the Masters, this 72-par 6,905-yard course is the most famous
3. SHINNECOCK HILLS Southampton, N.Y. 1891	Homey clubhouse built in late 1800s and outstanding 70-par course
4. BALTUSROL Springfield, N.J. 1895	With 1,100 members, club has three- year waiting list; 2 par-72 courses
5. WINGED FOOT Mamaroneck, N.Y. 1921	Boasts not one but two courses among the world's top 100

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TOP ATHLETIC CLUBS

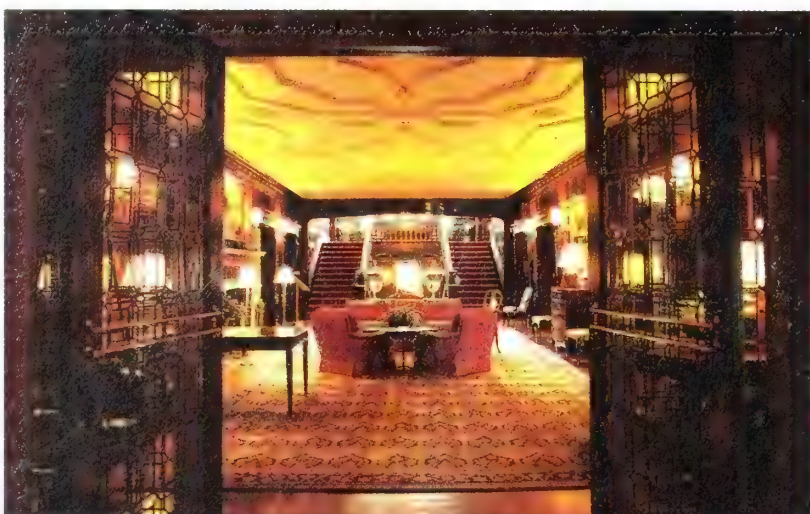
NAME/LOCATION/ FOUNDED	DETAILS
1. ATLANTA ATHLETIC CLUB Duluth, Ga. 1898	Sprawling complex with own yacht and country clubs
2. DETROIT ATHLETIC CLUB Detroit 1914	With 3,200 members, it has its own bowling alley, 36 guest rooms
3. MULTNOMAH ATHLETIC CLUB Portland, Ore. 1891	Has an old-time city club feel and gross revenues of \$14 million
4. NEW YORK ATHLETIC CLUB New York 1868	Cavernous club off Central Park with facility on Long Island Sound
5. WASHINGTON ATHLETIC CLUB Seattle 1930	With over 10,000 members, it's always busy; has 130 guest rooms

DATA: JOHN R. SIBBALD ASSOCIATES INC., BUSINESS WEEK

bers. At the Cherokee Town & Country, it's possible you could get a snarling waiter. "But it seldom happens twice," insists President John Spiegel, who says all letters of complaint are circulated to every member of the board of directors.

To enjoy such amenities requires both the approval of peers and wads of money. At the Cherokee, which has 2,500 members, the waiting list to join is five years long. It takes a full year or more for prospects at Duquesne to earn approval—assuming, of course, they have the written support of five members, boast a prestigious pedigree and don't mind paying the \$7,500 initiation fee, \$175 monthly dues, plus \$55 a month for the fitness center. "Members don't recommend someone who fails to measure up," insists General Manager Mel Rex.

OUT OF REACH. Most clubs zealously guard members' privacy. The result: Many clubs, especially the golf clubs, refuse to provide even the most innocuous details on their membership or facilities. "If you want to be private, you have to act private," says Charles Raudenbush, general manager of the top-ranked Pine Valley Golf Club, declining to divulge how



OPULENT: The lobby of the Cherokee Town & Country Club in Atlanta

many members there are.

The exclusive policies of some of these private clubs leave many of them still very white and very male. It was only six years ago that the Baltusrol Golf Club in Springfield, N.J., agreed to accept women and minority members for the first time. Club managers assert that they do not exclude anyone based on race, religion, or sex, but diversity rarely reigns. Indeed, the screening process and membership costs often put these clubs out of reach for many outside the Establishment. "You have to have a good bit of money to enjoy a private club," says Chris Borders, general manager of the Atlanta Athletic Club.

Clearly, costs do mount. The initiation fee alone for

the Los Angeles Country Club is \$80,000. Besides an initiation fee of \$35,000 and annual dues of \$4,900, the Baltusrol Golf Club requires entrants to buy a \$10,000 club-issued bond. At about a third of the golf and country clubs—where fees are highest—members can retrieve initiation fees when they resign. Sometimes, they can even earn a premium on the sale of their membership.

Before the government cracked down on business expenses about four years ago, many corporations footed the bill for as many as three or four clubs for every top executive. Most companies have since cut back to a single club, forcing more executives to reach into their own pockets. Most

clubs require the initiation fees to be paid up front. Some, such as the Atlanta Athletic Club, allow members to spread the payment over a one- or two-year period.

The cost of such memberships, moreover, may have little to do with which club is best. Although financier David M. Koch's Sherwood Country Club outside Los Angeles may have the steepest initiation fee at \$150,000, it didn't make the top 70 in

Sibbald survey. And many of the clubs favored by some of the nation's most powerful corporate elite are absent. Financier Jay Pritzker's Wilshire Country Club, for example, didn't even make the 10 list. Ah...but there's always next time. Meanwhile, the best clubs, where early generations of business titans dined, are still quite alive and well, thank you. *John B. ...*



TOP COUNTRY CLUBS

NAME/LOCATION/FOUNDED	DETAILS	NAME/LOCATION/FOUNDED	DETAILS
1. CHEROKEE TOWN & COUNTRY CLUB Atlanta 1956	Known for world-class facilities and up to five-year wait for membership	6. THE OLYMPIC CLUB San Francisco 1860	Oldest and largest with 4,700 members; also boasts a companion city club
2. LOS ANGELES COUNTRY CLUB Los Angeles 1898	Priciest, with \$80,000 initiation fee; most famous member: Ronald Reagan	7. ONWENTSIA CLUB Lake Forest, Ill. 1895	One of smallest clubs with only 600 members; in old Gothic stone building
3. THE COUNTRY CLUB Brookline, Mass. 1882	Sprawling club with 1,300 members known for hosting U.S. Open	8. WOODMONT COUNTRY CLUB Rockville, Md. 1913	Contemporary clubhouse with 1,400 members and steep \$70,000 initiation
4. RIVER OAKS COUNTRY CLUB Houston 1923	Long driveway leading to White House-looking clubhouse	9. GLEN VIEW CLUB Golf, Ill. 1897	Smallest club with 500 members; clubhouse looks like a college building
5. HOUSTON COUNTRY CLUB Houston 1908	Invested \$5 million in new kitchen; ballroom with gold-domed ceiling	10. WILMINGTON COUNTRY CLUB Wilmington, Del. 1901	Corporate-like clubhouse undergoing renovation; 1,250 members

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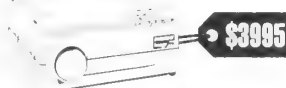
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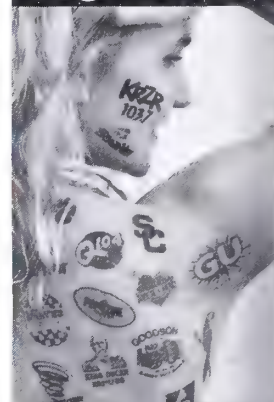
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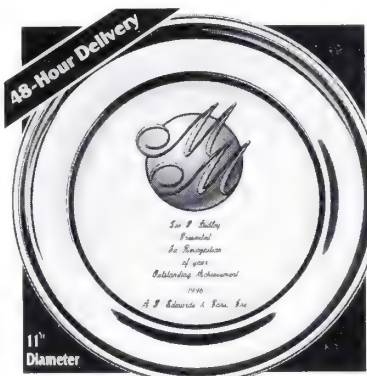
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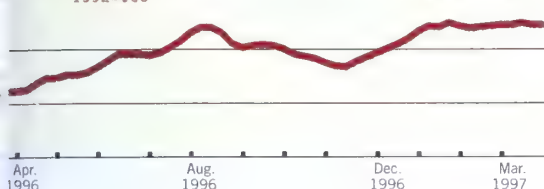
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Business Week Index

PRODUCTION INDEX

Change from last week: 0.0%
Change from last year: 5.2%

PRODUCTION INDEX
Mar. 29=122.2
1992=100



Production index was flat for the week ended Mar. 29. For all of March, the index was unchanged at 122.2. The index has been revised to reflect the mark revision to the Federal Reserve's index of industrial production and component weights. Historical data are available at Business Week Online: <http://www.businessweek.com> or on America Online at keyword: bw. Look for production index on the current issue's table of contents.

Production index copyright 1997 by The McGraw-Hill Companies.

PRICING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
SPRICES (4/4) S&P 500	757.90	757.12	15.7
LIBOR BOND YIELD, Aaa (4/4)	7.71%	7.63%	4.0
INDUSTRIAL MATERIALS PRICES (4/4)	105.9	106.2	-3.8
POWER FAILURES (3/28)	NA	NA	NA
ESTATE LOANS (3/26) billions	NA	NA	NA
Y SUPPLY, M2 (3/24) billions	\$3,880.2	\$3,877.2	4.4
UNEMPLOYMENT (3/29) thous.	314	313	-22.1

SP: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1990=100), Dun & Street (failures of large companies), Federal Reserve, Labor Dept

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
MUTUAL FUNDS (4/8)	5.34%	6.18%	5.07%
COMMERCIAL PAPER (4/9) 3-month	5.69	5.71	5.41
SAVINGS DEPOSIT (4/9) 3-month	5.70	5.70	5.37
FIXED RATE MORTGAGE (4/4) 30-year	8.30	8.21	7.99
ADJUSTABLE RATE MORTGAGE (4/4) one-year	6.04	6.02	5.76
LIBOR (4/4)	8.50	8.50	8.25

SP: Federal Reserve, HSH Associates, Bloomberg Financial Markets

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

CONSUMER PRICE INDEX

Monday, Apr. 15, 8:30 a.m. EDT ▶ Consumer prices of goods and services probably increased a small 0.2% in March, says median forecast of economists surveyed by International, one of The McGraw-Hill Companies. Prices rose 0.3% in February including food and energy, the core consumer price index was likely up 0.3% in March, on top of a 0.2% gain in February.

STOCK INVENTORIES

Monday, Apr. 15, 8:30 a.m. EDT ▶ Inventories held by manufacturers, wholesalers, and retailers likely increased 0.3% in February. Factories already have reported a gain in their stock levels, but the

sharp increase in consumer demand last quarter suggests that retail inventories were drawn down in February. In January, business inventories were up just 0.1%.

HOUSING STARTS

Wednesday, Apr. 16, 8:30 a.m. EDT ▶ The MMS survey projects that housing starts slipped to an annual rate of 1.46 million in March, after surging 12.2% in February, to a 1.53 million pace.

INDUSTRIAL PRODUCTION

Wednesday, Apr. 16, 9:15 a.m. EDT ▶ Output at factories, mines, and utilities probably increased 0.5% in March, the same solid increase posted in February, says the MMS

report. The March advance is suggested by the increase in hours worked in the factory sector. Consequently, the average operating rate for all industry likely edged up to 83.5% in March, from 83.3% in February.

INTERNATIONAL TRADE

Thursday, Apr. 17, 8:30 a.m. EDT ▶ The trade deficit for goods and services probably narrowed to \$11 billion in February, after jumping to \$12.7 billion in January. Exports probably increased slightly after falling for two consecutive months. And imports likely fell after advancing 2.2% in January. The foreign-trade sector of the economy probably subtracted heavily from growth in the first quarter.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (4/5) thous. of net tons	2,150	2,149#	4.3
AUTOS (4/5) units	111,089	108,675r#	0.5
TRUCKS (4/5) units	112,933	100,428r#	11.4
ELECTRIC POWER (4/5) millions of kilowatt-hrs.	55,754	56,950#	0.7
CRUDE-OIL REFINING (4/5) thous. of bbl./day	14,338	14,290#	3.4
COAL (3/29) thous. of net tons	21,395#	21,344	2.7
LUMBER (3/29) millions of ft.	486.4#	509.9	3.1
RAIL FREIGHT (3/29) billions of ton-miles	27.4#	27.9	1.1

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., WPPA1, SFPA2, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (4/9) \$/troy oz.	347.800	351.050	-11.8
STEEL SCRAP (4/4) #1 heavy, \$/ton	136.50	136.50	-2.2
COPPER (4/4) ¢/lb.	115.0	119.8	-1.8
ALUMINUM (4/4) ¢/lb.	78.5	79.3	1.9
COTTON (4/5) strict low middling 1-1/16 in., ¢/lb.	68.82	69.67	-18.3
OIL (4/8) \$/bbl.	19.05	19.95	-17.2
CRB FOODSTUFFS (4/8) 1967=100	243.65	245.32	0.7
CRB RAW INDUSTRIALS (4/8) 1967=100	333.88	337.92	0.7

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (4/9)	126.74	122.72	108.46
GERMAN MARK (4/9)	1.72	1.67	1.50
BRITISH POUND (4/9)	1.62	1.64	1.51
FRENCH FRANC (4/9)	5.80	5.63	5.09
ITALIAN LIRA (4/9)	1699.3	1659.0	1571.0
CANADIAN DOLLAR (4/9)	1.39	1.39	1.36
MEXICAN PESO (4/9)*	7.884	7.939	7.483
TRADE-WEIGHTED DOLLAR INDEX (4/9)	106.6	104.6	97.5

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar via J.P. Morgan

This Week, Online

Business Week presents frequent live conferences and chats on America Online—your opportunity to ask questions about features from the magazine.

Sunday

Is executive pay out of control? Talk with shareholder activist Nell Minow and BW's Jennifer Reingold on whether the performance of top brass merits their millions. **Apr. 13 9 p.m. EDT in the Globe**

Monday

How to prevent bankruptcy—and what to do if it comes—courtesy of Kent Snyder of the American Bankruptcy Institute. **Apr. 14 8 p.m. EDT in the BW Enterprise Chat Room**

Thursday

A global MBA right here at home: Students from Thunderbird answer your questions on what their school is like. **Apr. 17 8 p.m. EDT in the BW Online Chat Room**

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.

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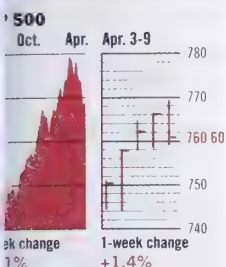
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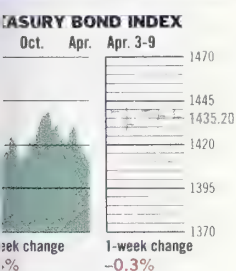
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MARKET COMMENTARY

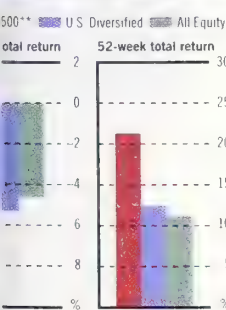
As a new week in the market with stocks climbing for straight days before turning sour. The Dow Jones Industrial average fell 45 points on Apr. 9, after a three-day rally in which the market had gained 132 points. The Apr. 9 rally was sparked by Merck and other drugmakers. Bonds climbed and so did the yen, which rose to a 55-month high against the yen, a three-year high against the dollar. Comments by Treasury Secretary Robert Rubin ended the dollar rally.

INTEREST RATES



Data: Bloomberg Financial Markets

MUTUAL FUNDS



Morningstar, Inc.

Figures as of market close Wednesday, Apr. 9, 1997, unless otherwise indicated. Industry groups & P 500 companies only. Fundamentals, technical indicators, Bloomberg money flow analysis,

U.S. MARKETS

	Latest	% change Week	% change Year
Dow Jones Industrials	6563.8	0.7	19.6
NASDAQ Combined Composite	1249.4	4.0	12.6
S&P MidCap 400	255.3	2.5	11.2
S&P SmallCap 600	139.8	3.4	8.6
S&P SuperComposite 1500	163.2	1.6	17.2

SECTORS

	Latest	% change Week	% change Year
Bloomberg Information Age	231.4	3.3	17.7
S&P Financials	86.6	2.8	32.5
S&P Utilities	185.6	-1.6	-0.6
PSE Technology	250.8	5.4	23.3

FOREIGN MARKETS

	Latest	% change Week	% change Year
London (FT-SE 100)	4292.3	1.3	14.2
Frankfurt (DAX)	3359.5	1.7	34.2
Tokyo (NIKKEI 225)	17,703.4	-1.9	-18.6
Hong Kong (Hang Seng)	12,426.7	2.4	11.9
Toronto (TSE 300)	5798.7	-0.9	15.8
Mexico City (IPC)	3797.3	2.2	26.2

FUNDAMENTALS

	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.92%	1.94%	2.19%
S&P 500 P/E Ratio (Last 12 mos.)	20.1	19.9	18.7
S&P 500 P/E Ratio (Next 12 mos.)*	16.0	15.9	NA
First Call Earnings Surprise*	5.25%	2.41%	NA

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 200-day average	722.3	720.0	Positive
Stocks above 200-day average	56.0%	56.0%	Neutral
Options: Put/call ratio	0.6	0.69	Neutral
Insiders: Vickers Sell/buy ratio	1.98	2.04	Positive

Data: Bloomberg Financial Markets; *First Call Corp.

KEY RATES

	Latest week%	Week ago%	Year ago%
MONEY MARKET FUNDS	5.02	5.01	4.85
90-DAY TREASURY BILLS	5.22	5.30	5.10
6-MONTH BANK CDS	5.13	5.13	4.88
1-YEAR TREASURY BILLS	5.95	5.98	5.60
10-YEAR TREASURY NOTES	6.89	6.88	6.56
30-YEAR TREASURY BONDS	7.10	7.08	6.84
LONG-TERM AA INDUSTRIALS	7.61	7.56	7.41
LONG-TERM BBB INDUSTRIALS	7.96	7.94	7.84
LONG-TERM AA TELEPHONES	7.82	7.77	7.68

EQUITY FUNDS

Leaders	Four-week total return	%	Laggards	Four-week total return	%
Merrill Technology A	7.1		IDS Precious Metals B	-18.2	
Rydex Urca	6.2		Invesco Strategic Gold	-17.0	
Amerindo Technology D	5.3		Morgan Stanley Inst. Gold A	-16.5	
GAM Japan Capital A	4.5		Midas	-16.4	
Morgan Stan. Inst. Jap. Eq. A	3.5		Bull & Bear Gold Investors	-14.9	
Leaders	52-week total return	%	Laggards	52-week total return	%
Morgan Stan Inst. Lat. Am. A	58.5		DFA Japanese Small Co.	-44.3	
Morgan Stanley Latin Amer. A	57.2		Steadman Technology Grth.	-42.0	
Vontobel Eastern Europ. Eq.	50.4		United Svcs. Gold Shares	-40.1	
Delaware Pooled Real Estate	46.0		Fidelity Japan Small Co.	-38.1	
Federated Latin Amer Gr. A	43.6		Matthews Korea	-33.6	

BEST-PERFORMING GROUPS

	Last month%	Last 12 months%
Trucking	13.3	Semiconductors 79.5
Restaurants	9.8	Savings & Loans 52.2
Airlines	4.1	Invest. Banking/Bkrgr. 46.5
Specialty Printing	3.5	Oil & Gas Drilling 44.4
Genl. Merchandise Chains	1.5	Shoes 42.9

WORST-PERFORMING GROUPS

	Last month%	Last 12 months%
Hospital Management	-23.4	Gold Mining -31.2
Photography/Imaging	-16.3	Machine Tools -25.5
Personal Loans	-15.9	Broadcasting -20.8
Tobacco	-15.8	Engineering & Constr. -19.3
Shoes	-15.3	Steel -17.8

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness	Price	1-month change
IBM	136 5/8	-9 1/2
MCI Communications	36 5/16	-3 1/16
Mobil	126 1/4	-6 7/8
Applied Materials	53 1/2	-1 1/4
Citicorp	114 3/4	-11 5/8
3M	84 3/8	-7 7/8
Decline ahead? Stocks with most significant selling on price strength	Price	1-month change
Cisco Systems	55 3/8	2
Intel	146 39/64	1 39/64
Oracle	39 1/2	3 1/2
Atmel	27 1/2	1 3/8
Cascade Communications	32 1/8	4 1/16
Gateway 2000	58 13/16	1 11/16

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	10-yr. bond Last week	30-yr. bond Latest week	30-yr. bond Last week
GENERAL OBLIGATIONS	5.07%	5.07%	5.63%	5.63%
PERCENT OF TREASURIES	73.59	73.94	79.29	79.63
TAXABLE EQUIVALENT	7.35	7.35	8.16	8.16
INSURED REVENUE BONDS	5.24	5.24	5.89	5.89
PERCENT OF TREASURIES	76.06	76.42	82.95	83.31
TAXABLE EQUIVALENT	7.59	7.59	8.54	8.54

EQUITY FUND CATEGORIES

Leaders	Four-week total return	%	Laggards	Four-week total return	%
Latin America	-0.2		Precious Metals	-11.7	
Technology	-0.2		Health	-8.2	
Japan	-0.4		Financial	-7.1	
International Hybrid	-2.5		Small-cap Growth	-7.0	
Diversified Emerging Markets	-2.6		Natural Resources	-5.9	
Leaders	52-week total return	%	Laggards	52-week total return	%
Latin America	36.8		Precious Metals	-21.7	
Japan	33.0		Japan	-19.7	
Financial	29.2		Diversified Pacific/Asia	-4.8	
Large-cap Blend	17.5		Pacific/Asia ex-Japan	-2.7	
Technology	17.5		Small-cap Growth	-2.4	

Figures as of market close Wednesday, Apr. 9, 1997, unless otherwise indicated. Industry groups & P 500 companies only. Fundamentals, technical indicators, Bloomberg money flow analysis, and mutual fund returns are as of Apr. 8. For a more detailed explanation, write to us or E-mail figures@businessweek.com. NA=Not available **Vanguard Index 500 Fund

CALL IT EXECUTIVE OVERCOMPENSATION

Few Americans consider themselves overpaid—not plumbers, baseball players, building contractors, or movie stars. CEOs are no exception. After all, they led Corporate America in 1996 to double-digit gains in company profits and in share prices. They helped create 2½ million jobs and raise real wages. They boosted U.S. competitiveness in global markets. So what if many CEOs took home upwards of \$30 million, while others took in \$60 million—and one garnered more than \$100 million? It's all pay for performance, isn't it?

Well.... For many, it may be pay for stock market performance, not business performance. No one begrudges the top CEOs, who deliver fantastic returns on equity (ROE) to their shareholders, their due. Manpower Inc.'s Mitchell S. Fromstein, for example, took in \$10 million for delivering an ROE of 32%. But last year, average—repeat average—total CEO compensation rose an astonishing 53%, nearly five times the 11% average gain in corporate profits, according to BUSINESS WEEK's annual Executive Pay Survey (page 58). Most of that compensation came in the form of stock options, which rose along with the rest of the market. In the classic error of confusing a bull market for genius, dozens of CEOs were rewarded not for their own achievements but for those of Federal Reserve Chairman Alan Greenspan and congressional budget cutters, who set the equities market on fire with policies that promoted low inflation and moderate economic growth. These chief executives simply hitched a ride on the performance of others, including other CEOs who churned out the earnings that set the market moving at warp speed.

Even so, who got hurt? Since most of the compensation was in options, which are not charged against earnings, who loses? Answer: the shareholders, who are beginning to whisper the word "dilution." Thanks to option mania, earnings per share are increasingly watered down. What's more, the cost of options has been easy to hide, because they don't have to be listed on the income statement. But as of yearend 1996, companies must quantify, in a footnote in the annual report, what the options' cost would have been. Guess what? Shareholders can now read, for example, that option grants last year, if accounted for,

would have cost PepsiCo Inc. 6% of earnings, or \$68 million.

The law of unforeseen consequences is clearly at work with option mania. Pressure from institutional investors in the late 1980s to reform CEO pay and shift it away from automatic cash increases to options was viewed as a way to tie pay to performance. But few foresaw the granting of enormous option packages—many in the hundreds of thousands, annually—or the skyrocketing market that would carry the compensation of many very average executives to such heights.

What's to be done? First, the true cost of options must be made clear. Footnotes are not visible enough. Income statements must delineate the size and cost of stock options, and their value probably should be deducted in calculating earnings. CEOs should also curb their own hubris. They are team leaders, not celebrities or one-man bands. There are many turnaround situations where a new CEO dramatically improves earnings and the stock price. Here, outsize compensation makes sense. But usually, a chief executive works with a team of people who manage thousands of employees, each contributing to the success or failure of the company. A team leader requires respect to function. Making 200 times the average paycheck, simply because the market has a good year, doesn't generate respect. Factory wages rose 3% last year. White-collar workers received 3.2%. Enough said.

Boards of directors' compensation committees are responsible for seeing to it that CEO pay is truly linked to performance, and many have been derelict in their duty. One board has handed out so many options to a chief exec that he took home his \$60 million despite a company stock rise of just 11%—as the Standard & Poor's 500-index jumped 23%. CEOs committed the financial sin of repricing options downward when earnings couldn't generate enough equity growth to make the CEO's options "in the money."

It is time for shareholders to insist that CEOs get paid according to their output. Exceptional performance—and only exceptional performance—demands exceptional pay. Tossing out \$50 million packages just for hitching a ride doesn't cut it. Compensation inflation is running riot in many corner offices of Corporate America. This has simply got to stop.

THE SAD IRONY OF FED POLICY

You don't have to be a populist of either the conservative or liberal persuasion to see the irony in the Federal Reserve's raising rates to curb growth just as the working stiff is getting a better paycheck after 20 years of stagnation. Executives—and others with stocks and options—have been doing splendidly in this economic expansion. Now, with labor markets tightening and wages rising, a 3% wage gain is perceived as an inflation threat. How sad.

Capitalism is supposed to bring higher living standards for

everyone. Growth can deliver it, given a chance. Growth can even generate jobs for millions on welfare. Moreover, outside of high tech, real weekly wages for nonsupervisory workers are up only 0.7% in the past two years. High-tech wages are up more, but they are in industries with falling prices.

Perhaps the Fed was right to prick the balloon of the market's "irrational exuberance." But it must not appear to be an enemy of growth or higher living standards. Growth is good, Mr. Greenspan.



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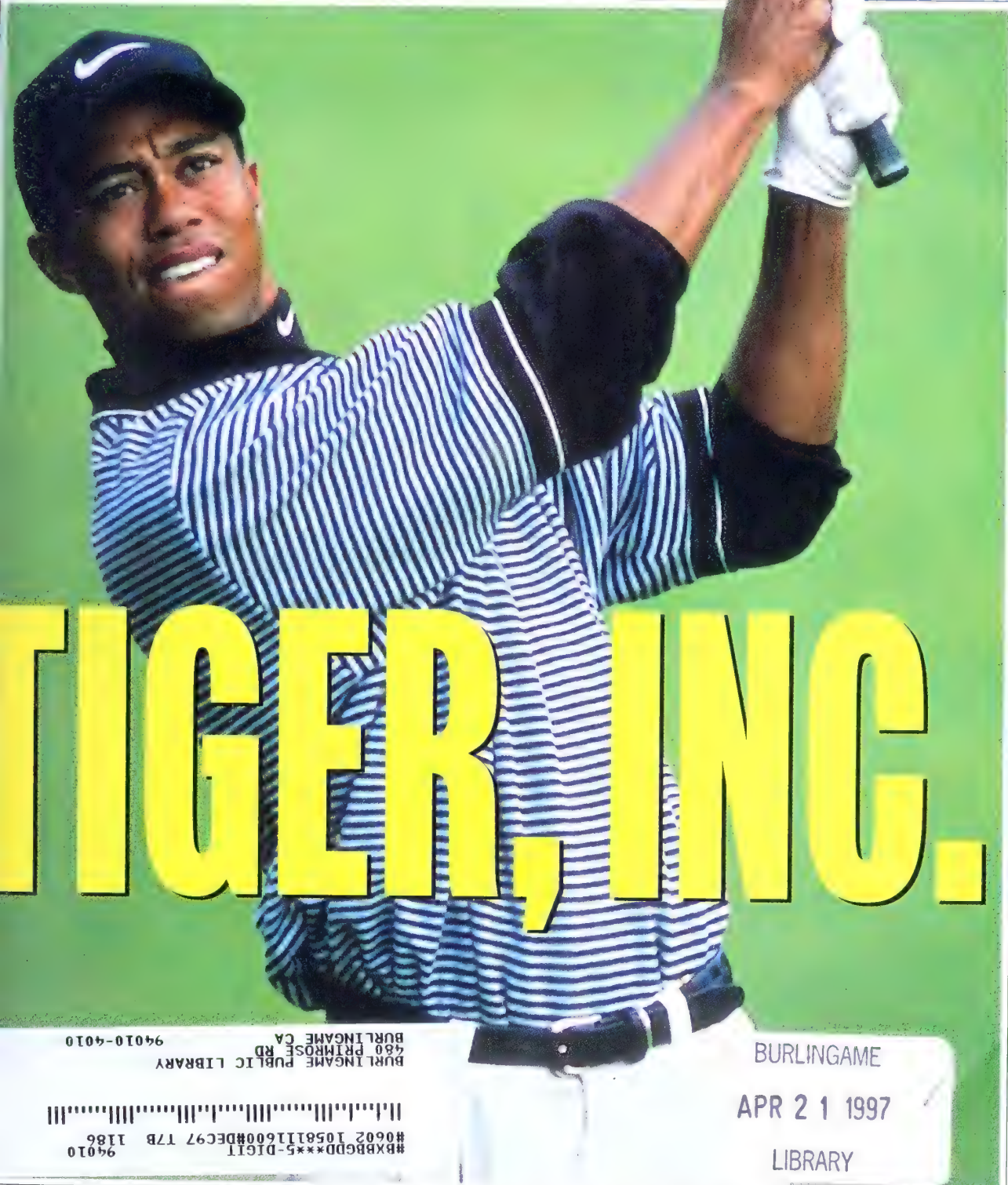
Merrill Lynch
on national security.

When its people are financially secure, a nation's
security is enhanced. But the costs of aging
populations are raising issues that must be
addressed in the U.S. and in countries around the world.

BusinessWeek

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The Accord V-6 Sedan.

COVER STORY

TIGER, INC.

Can this amazing golfer keep his head as the millions roll in?



Cover Story

32 TIGER, INC.

No athlete has ever come so far, so fast as the 21-year-old Tiger Woods. He is already the dominant figure in golf and is a hero to millions of minorities. The endorsement deals he could garner stagger the imagination. His handlers have cautiously adopted a less-is-more strategy for now, but Tiger's own success is coming at him with hurricane force. Can this very young man stand up to it?

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Golf is already booming in Asia, though Tiger may give it a further boost

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Enjoy your first quarter profits, because earnings may well weaken later in the year as margins get squeezed by a variety of factors

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Daimler Benz's \$330 million bet on fuel-cell-powered cars is lighting a fire under its rivals

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A human-rights group pressures components makers to better police the use of their products and pushes for a global ban on the devices

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The theater industry welcomes pacts with corporate sponsors, which offer both a new source of revenue and access to more marketing muscle

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Cholestia may sound like an ordinary drug, but it's a yeast-based natural remedy that has sparked a test case about the limits of the FDA's jurisdiction

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H.M. Sampoerna, maker of clove cigarettes, mounts a global push for a milder brand

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Mexico's independent unions are slipping their leash, which could lead to higher wages and more unrest

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Kuttner: Dani Rodrik is out to warn mainstream economists with a new book about the social costs of free trade

26 ECONOMIC TRENDS

The downside of corporate downsizing is a red flag for Wall Street, foreign investors are buying more U.S. debt, oomph in the U.S. job rolls

29 BUSINESS OUTLOOK

Don't fret about the boom-and-bust scenarios just yet. But if the data get any stronger, all bets are off



AGING BULL
First-quarter profits
sizzled, but... page 38



A man with light hair, wearing a white long-sleeved shirt and a patterned tie, stands with his hands on his hips. He is positioned in front of a green metal structure, possibly a railing or part of a machine. The background is dark and indistinct.

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Up Front

EDITED BY STAN CROCK



SOFTWARE HARDBALL

MORE ANTITRUST WOES FOR GATES?

TRUSTBUSTERS ARE ON Microsoft's case again. This time, the attorneys general of Texas and Massachusetts are looking into its tactics in the brutal Internet browser war. Compaq says it recently received information requests from both states indicating such a probe. Microsoft and rival Netscape Communications confirm they received civil subpoenas from Texas, and Lotus got one from Massachusetts.

Next year, Microsoft plans

TARGET to release a version of Windows that includes its Internet Explorer

for free. Rivals concerned about Microsoft's power in the software industry have told antitrust officials the bundled Net browser may stifle competition.

Netscape, which has 75% of the market, is upgrading its offering, too. Its browser, due out later this year, will include such features as E-mail. But some in the industry fear the new Windows, by automatically using Explorer, will freeze Netscape out of the market.

The products are similar, but Microsoft will have an edge because the Netscape browser will cost \$59 and require more key strokes to activate. Microsoft sees no legal problem: "We are confident the states will agree that competition is hot and heavy in Internet software and that consumers are the biggest winners in the browser battle," says a spokesman. *Catherine Yang and Gary McWilliams*

THE LIST PICK OF THE CLUBS

Motorola has replaced McDonald's as the most popular stock held by investment clubs, ending Micky D's six-year reign on top.

panies. Kenneth Janke, CEO of the National Association of Investors Corp., says that shows the clubs invest for the long haul.

1997 RANK	COMPANY	NO. OF CLUBS
1	MOTOROLA	9,334
2	PEPSICO	8,812
3	MERCK	8,106
4	MCDONALD'S	7,712
5	INTEL	6,667
6	AFLAC	5,923
7	COCA-COLA	5,577
8	LUCENT TECHNOLOGIES	4,545
9	RPM	4,311
10	AT&T	4,017

DATA: NATIONAL ASSOCIATION OF INVESTORS CORP.

And Wal-Mart fell from No. 8 to No. 20. But the biggest change in the 1997 list of top stocks held by the clubs is the increased presence of high-tech com-

TALK SHOW "I wouldn't go to the bank on that."

—Convicted Whitewater thrift owner James McDougal, on his earlier statement that President Clinton and the First Lady would be absolved of any wrongdoing

LOOPHOLES 101

A STUDENT-LOAN OFFER YOU CAN'T REFUSE

STILL STRUGGLING TO REPAY your college loan? Here's a tip: Refinance it under Uncle Sam's direct-loan program. You can make small payments and after 25 years, default on the balance—legally. That's the advice of David Klein, a Nevada chiropractor whose \$79 book on exploiting the 1994 student-loan reforms has law-makers steamed. He expects to save \$300,000 by following his own advice.

The plan lets grads entering low-paying fields make modest initial payments that rise with their incomes—but not always in lockstep. And the monthly outlays can be so low they don't cover ac-

crued interest. As the unpaid interest compounds and added to the loan principal, the balance balloons. Yet the government forgives any paid balance after 25 years.

The Education Dept. estimates 20% of the \$900 million in loans may default.



Most of the deadbeats will be low-income grads with high debt—the program's intended beneficiaries. *Dean F...*

THE DEAL MILL

A NEW UNIVERSE FOR MILKEN TO MASTER

LONGTIME PALS MIKE MILKEN and Lawrence Ellison are quietly creating a new venture: Knowledge Universe Co. They're providing the bulk of \$500 million for the Los Angeles holding company, which blends Ellison's computer expertise with Milken's finan-



PALS: Ellison and Milken

cial acumen and their shared passion for improving education. Their goal: 10% of the \$100 billion global market for continuing education, at-home courses, and similar products.

Company operations will be run by Tom Kalinske, the ex-Sega USA chief. Ellison,

Milken, and his younger brother, co-investor Lowell, provide strategic thinking.

The company has annual sales of \$400 million from a 50.5% stake in CRT Group, a British computer-training and temp outfit, and a soon-to-be-announced U.S. acquisition.

On the way to an information-technology consulting company headed by ex-Renaissance Solutions vice president Gresham Breback, Knowledge Universe will also offer state-side training services and software and books.

Will the duo score? "My gut feeling is that this is a growth market," says Richard Hickinbotham, an analyst at SBC Warburg, L. Sanders and Kathleen Mo...

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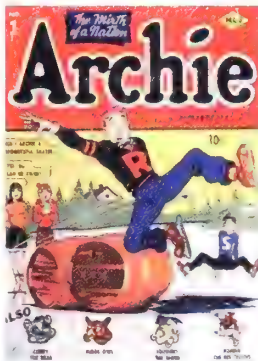
Up Front

POP CULTURE

JEEPERS, ARCH, THAT'S A LOT OF DOUGH

THE COMIC CHARACTER Archie has always tried to impress haughty Veronica Lodge. Maybe the \$100,000 that Baltimore-area collector Steve Geppi paid on Apr. 5 for a pair of Archie comics will do it. It's the highest price ever for a non-superhero comic book, and the purchase may heat up the market for humor and comics for and about teens.

Superhero comics traditionally have driven the collectors' market. While prices often run to several hundred dollars, Geppi in 1995 paid a record \$176,000 for the 1940 debut issue of *Captain Marvel*. Now, Archie may be coming of financial age. "The importance of Archie has



ISSUE NO. 1: Don't toss

been overlooked in the market," says Bob Overstreet, publisher of *The Overstreet Comic Book Price Guide*. Noting that Archie's continued popularity is rare in his genre, he adds: "I see a lot of growth there."

The 47-year-old Geppi, whose Diamond Comic Distributors is the largest distributor of new English-language comics, paid a premium for the early 1940s Archies because they came from the "Mile High collection" of 18,000 mint-condition books found in a pantry in Denver in the 1970s. Geppi says he has already been offered \$150,000 for the pair. When it comes to investing in comics, he's no Jughead. Roy Furchgott

WILD BLUE YONDER

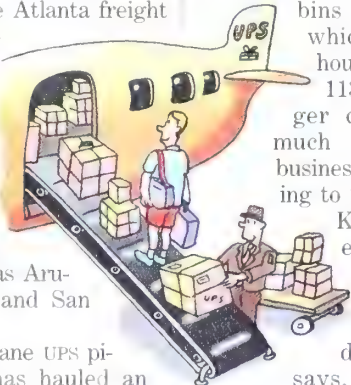
CALL IT A PACKAGE TOUR

THERE ARE FIRST CLASS, business class, and coach. Now, thanks to United Parcel Service, there's cargo class. In March, the Atlanta freight hauler started offering some of its 727s to tour operators for charter flights to popular vacation destinations such as Aruba, Cancun, and San Juan.

The two-plane UPS pilot project has hauled an estimated 6,000 passengers on 60 flights since Mar. 7. The company won't disclose sales or projections. But it figures

that the roughly \$10 million cost of outfitting five aircraft for weekend conversions will produce a windfall from planes that otherwise would sit idle from Friday morning to Monday night.

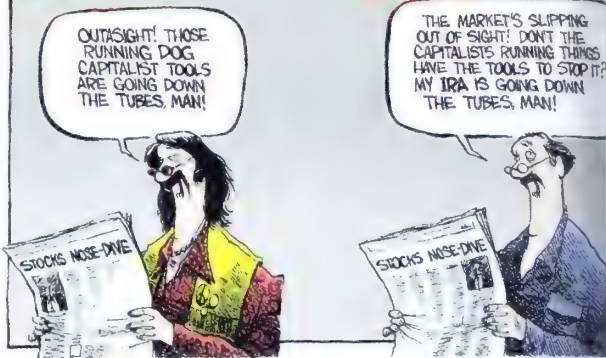
Installing such items as seats and overhead bins each week, which takes 3½ hours, produces a 113-seat passenger cabin with as much leg room as business class, according to UPS spokesman Kenneth Shapiro. "On these planes, you can cross your legs without doing yoga," he says. UPS officials hope that the initial flights will someday lead to greatly expanded passenger service. Christina Del Valle



DRAWN & QUARTERED

The '60s

The '90s



HUNTING HEADS

U.S. AIRLINES FACE A BRAIN DRAIN

AIRLINE DEREGULATION IN Europe has overseas carriers scrambling for U.S. managerial talent. When Swissair was recruiting a president and coo, it wooed Frederick Reid, a former American Airlines exec, who turned it down for a similar post at Lufthansa. Another contender for the Swissair job, industry sources say, was John Garel, a senior veeep of marketing and sales at America West Airlines, who opted to head a new leisure-travel company. Jeffrey Katz, former president of the SABRE Travel Information Network, ultimately got the nod. Why the all-American field? European managers lack experience in unregulated markets, so "we had to go

outside," says Zurich recruit Bjorn Johansson, who headed the search.

Demand is especially strong for executives savvy about fare management—a rare trait at the former state-owned carriers. So Lufthansa and others are courting Fred Baldanza, an ex-Continental Airlines official, and Nor-



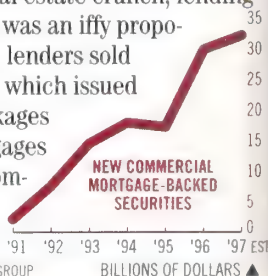
FARE WARS: Euros mimic

west Airlines' fare-setting guru Laura Liu was up for a top Swissair post. Both declined to comment. L Sanders and Wendy Zell

THE BIG PICTURE

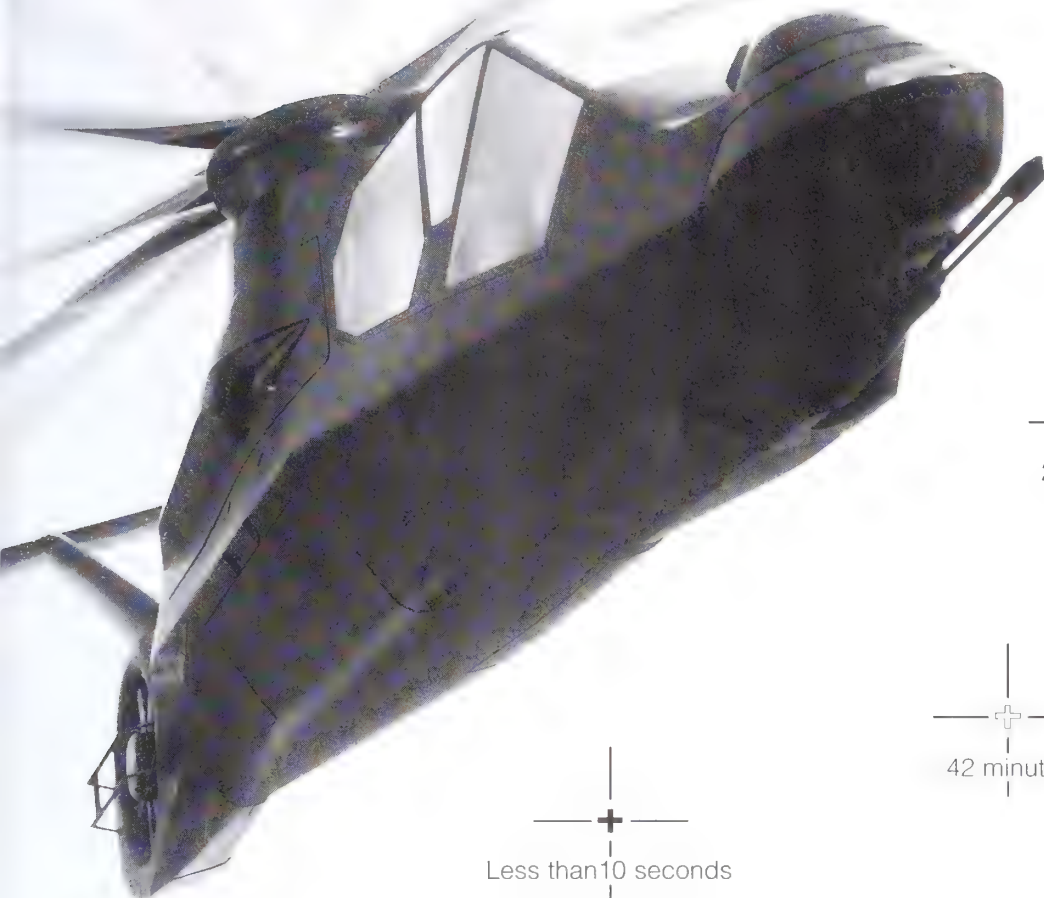
A PRETTY PACKAGE FOR LOANS

During the early 1990s real estate crunch, lending for commercial buildings was an iffy proposition. To spread the risk, lenders sold mortgages to Wall Street, which issued securities backed by packages of mortgages. Such mortgages accounted for 9% of all commercial mortgages last year, up from 1% in 1991.



DATA: E&Y KENNETH LEVENTHAL REAL ESTATE GROUP

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THE BOOMER BOTTLENECK

After reading "The coming job bottleneck" (The Workplace, Mar. 24), I felt relieved: Good, I'm not crazy—it really is that bad, I thought. And then I was frustrated: When will my generation get a break?

As a twentysomething college-educated professional employed in the auto industry, I have been driven to tears by the lack of opportunity for advancement due to the "graybeard ceiling." I have been in my current position for six years, and my only advancement came when I asked for new responsibilities, without leaving present responsibilities, at the same pay. That's advancement?

Men my father's age seem to have a fierce determination not to retire. I feel as though my most productive, creative years are being wasted, as I bide my time until the old guy in the job slot above me either retires or, more likely, dies at his desk. Don't these people want to enjoy their golden years? When I hear baby boomers say they had to struggle to get ahead, I want to scream. At least they were moving ahead.

Mary S. Snell
Harper Woods, Mich.

Your story about Cummins Engine Co. gave the impression that workers at Cummins were responsible for the lack of younger workers at our facility. The fact of the matter is that we, the Diesel Workers Union, ratified an 11-year contract because the company threatened to take our work out of Columbus and shut down our plant if we did not.

It was our understanding that as our workers retired, they would be replaced by younger applicants (our children). Instead, the company has adopted the policy of hiring temporary workers, keeping them for 89 days, and laying them off. This allows the company to maintain a semi-permanent workforce, pay them substandard wages, and avoid offering them benefits. If this arrangement had been explained at the time

CORRECTIONS & CLARIFICATION

"Incredible boon for the self-employed" (Enterprise, Mar. 3, in some editions) stated the terms of a Mutual of Omaha Insurance Co. major medical policy for a family of four. The maximum family deductible is \$5,000, not \$10,000 as reported. And the policy pays 100% of additional expenses, not 80%. A feature called "common accident," such as a car crash, limits the family deductible to \$2,500, not \$10,000.

In "How Kaiser's cost-slashing nicked the image," (News: Analysis & Comment, Apr. 21), Terry D. Almany's first name was mistakenly given as "Trevor."

we voted on our 11-year contract never would have ratified it.

Samuel Unsworth
Nashville

DON'T RUSH TO WRITE OFF LIMBAUGH

EFM, which syndicates *The Rush Limbaugh Show*, has reached successful negotiations with 99.5% of our affiliates, as we have for the past nine years ("Rush faces a rebellion," Up Front, Apr. 7). Indeed, hundreds of stations across the country would like to join Rush's show, if only we would agree to move it to them—and at higher fees than we have negotiated with our current affiliates. The source for our article has misled you. The story reflects one sour former customer.

John A. Fenn
President
EFM Media Management
New York

WE'RE TAXPAYERS, NOT SERFS, MR. ROBERTS

In Paul Craig Roberts' article "Economic freedom: How does the stack up?" (Economic Viewpoint, Apr. 7), he says Americans are no better

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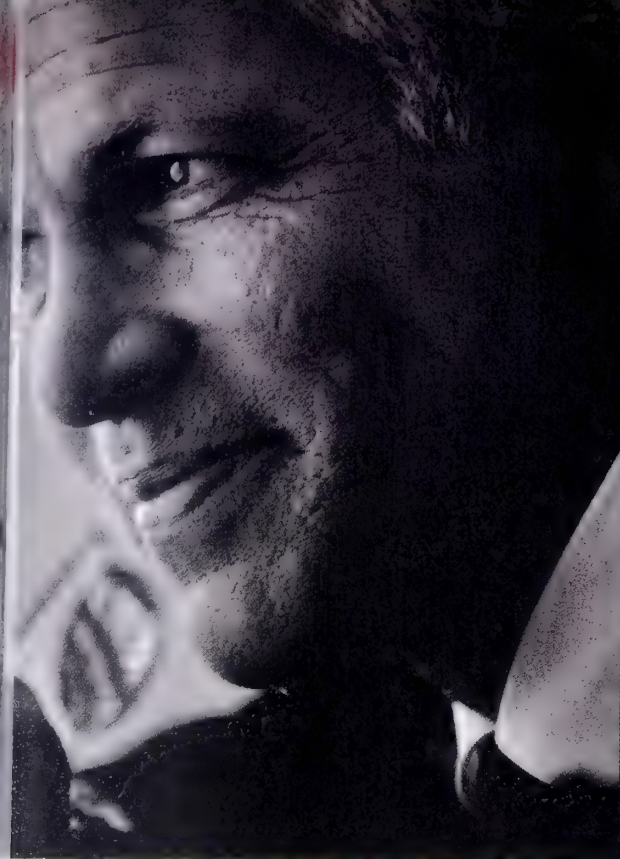


APRIL 28, 1997 (ISSN 0007-7135)*** 3524

Published weekly, except for one issue in January, by The McGraw-Hill Companies, Inc. Founder: James H. McGraw 1860-1948
 Executive, Editorial, Circulation and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020 Telephone: 212 512-2000 Telex: Domestic 127049; Int'l 270492
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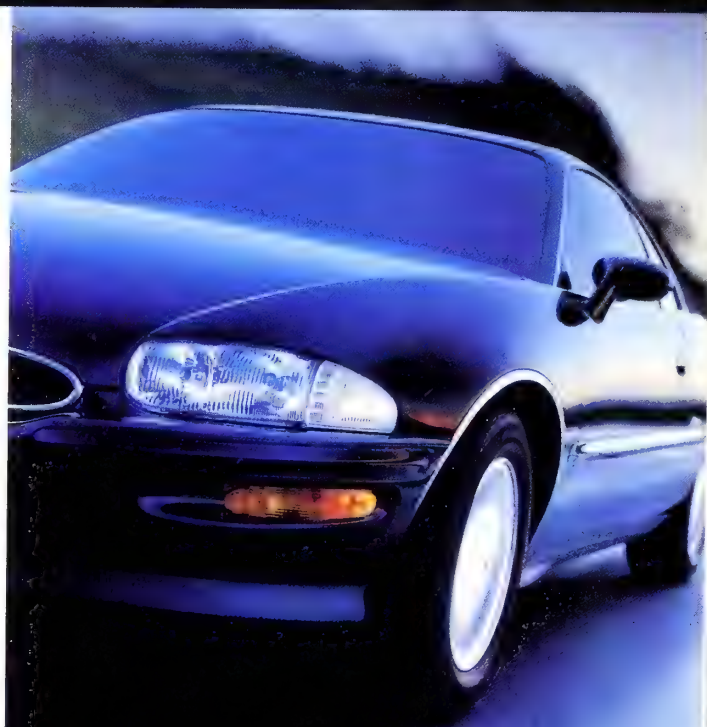
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You got a haircut every other
Tuesday. You never left a wet
bathing suit on the bed. Guess
what, friend. You're done dottin'
i's. This is the Buick Riviera. You
can get a supercharged engine,
a CD player with six speakers,
and an ashtray big enough for
two cigars. I don't recommend
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Readers Report

than serfs in the Middle Ages, and he talks about the relationship between taxes and economic freedom.

Serfs often had their earnings seized by brutal monarchs, princes, and warlords. America has certainly advanced beyond that. And while everyone gripes about taxes, in a democratic country taxes are not theft but the price we pay for society's collective demand for services. At the federal level, these are primarily transfer payments to individuals—Social Security, Medicare, Medicaid—and a large military. At the local level, these are schools, public safety, and infrastructure.

If, as Mr. Roberts suggests, the most important indicator of economic freedom is the tax burden, then countries such as Zambia (where the ratio of tax revenue to gross domestic ratio is 10%), Burkina Faso (tax-GDP ratio of 9%), Cameroon (11%), and Bolivia (12%) must be economic paradises.

Harvey Bronstein
Washington

Roberts' latest column continues his vendetta against taxes. He compares successful Americans—presumably including most BUSINESS WEEK readers—with medieval serfs, and the serfs come out ahead. But Americans, unlike serfs, have political freedom, without which economic freedom is meaningless. The serfs had no say in how the taxes were spent; the American people have control through their votes.

Bruce Rollier
Merrick School of Business
University of Baltimore
Baltimore

In Paul Craig Roberts' latest diatribe against taxation, he says: "In the U.S.,

successful, hardworking people face a combined state, local, and federal marginal tax rate of 50% or more." He doesn't bother to mention that these "hardworking people" must have an income of more than \$272,500 to reach this marginal tax rate. I would argue that to pay such a high marginal rate, most taxpayers' gross incomes would be considerably in excess of \$272,500. So how many "hardworking people" are we actually talking about here?

James Wirth
Pittsburgh

CAREFUL WHEN YOU SAY 'SPECIAL INTEREST,' GUYS

You referred to a meeting of Alexis Herman with "women's groups and other special interests" ("Herman's baggage grows heavier," Up Front, Mar. 24). Women are the majority in the U.S., and by our lights, that makes men the special-interest group!

Melissa Bishop-Morgan
Vice-President
National Organization for
Women—New York State Inc.
Speonk, N.Y.

MEET THE SOCIALLY CONSCIOUS MBA

People who still believe that MBAs are little more than "self-centered, money-grubbing" disciples of Machiavelli should know about Stanford Business School's Alumni Consulting Team ("Bleeding hearts at B-schools?" Up Front, Apr. 7). ACT is a group of alumni and alumnae who provide pro bono management-consulting services to San Francisco Bay Area nonprofit and social-service organizations.

Now celebrating its 10th anniversary, ACT comprises more than 350 volunteers from MBA classes spanning 60 years—1939 through 1999. In this time, it has undertaken almost 200 projects and is estimated to be the largest pro bono service provider in the Bay Area, volunteering over \$1 million in consulting services annually to its "clients."

Samuel M. Frank
President
Brand Builders Inc.
Alameda, Calif.

IS THIS THE LAST GASP FOR METHYL BROMIDE?

Your article on the pesticide methyl bromide ("Can farmers live without this deadly gas?" Environment, Apr. 7) presents only one side of the story. The

dangers of this chemical are well known—the Environmental Protection Agency classifies methyl bromide as Category I acute toxin, and at least one person in California (where the pesticide is widely used) have died from exposure since 1982.

Because it depletes the earth's protective ozone layer, methyl bromide will be phased out in the U.S. by 2001. The Clinton Administration has publicly committed itself to the 2001 deadline. In 1995, a U.N. scientific panel identified feasible alternatives for more than 90% of methyl bromide use. Farmers across California are already using these substitutes.

In the interest of public health, the environment, and the ozone layer, we hope that this hazardous pesticide will not survive into the next century.

Anne Schor
Pesticide Action Network
San Francisco

IF THAT'S A MOUNTAIN, I'M SAM HOUSTON

My interest in the report on the latest developments in Michael Elins' dorm-room-to-riches saga ("Whirlwind on the Web," Information Processing, Apr. 7) was overtaken by skepticism that he could be living in a "mountain top estate."

"Hilltop" would seem to be the best available superlative, given the Texas Country topography of that part of the Lone Star State, where I used to live. Admittedly, everything is bigger in Texas, but the media must painstakingly avoid the appearance of mountains out of molehills.

Mark Gozola
Los Angeles

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HE MADNESS
s Own Prison Memoir
/achtler
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ARD TIME-AND HARD LOOK AT JUSTICE

has been a boon to literature. From Jack Henry Abbott to Miguel Añero, cons have found a subject in prison life that stirred them to others, whose time behind bars is mostly forgotten, began their scribe. Nelson Algren, for example, author of *The Man with the Golden* started writing in a Texas jail while he was serving four months for theft of a typewriter.

comes *After the Madness: A Judge's Own Prison Memoir* by Sol Wachtler, once the chief justice of the state court in New York State. It's Wachtler, you will remember, who was indicted by the FBI for conducting a campaign of harassment against former mistress, Joy Silverman. He received phone calls and anonymous threatening letters. One note also contained a condom—and was addressed to Silverman's 14-year-old daughter. As for his harassment, Wachtler assumed various guises, including that of "David Purdy, who offered to go for Silverman paid him \$20,000.

Of this, the ex-judge says he realized in his manic-depressed, pill-addled state should have prompted Silverman to end and beg for his help. Instead, new from the first who her torment was—and called the feds, who ordered Wachtler's every move and ended him. In 1993, he was convicted of harassment and sent to prison.

After the Madness isn't primarily meant to justify or apologize for the weird series of events. Instead, a diary of Wachtler's 11-month imprisonment (which followed a year of confinement) focuses on his pen-pals, jailhouse experiences, and opinions concerning the law, crime, punishment, and rehabilitation. Most of the legal ruminations are unsurprising, coming to liberal orthodoxies. All the same, even readers who suspect

Wachtler of trying to cash in on his notoriety are likely to find much of the book engrossing.

Most interesting are Wachtler's descriptions of prison life and his encounters with other inmates. First sent to a high-security prison in Butner, N.C., and later to a similar facility in Rochester, Minn., Wachtler's experience—he particularly wants us to know—bore no resemblance to a day at the country club. He often finds himself in "seclusion," or solitary confinement, is frequently strip-searched and subjected to urine tests, is denied possessions, gets shackled and handcuffed regularly, and then is stabbed by an unknown assailant. The worst moment of his ordeal, he says, came shortly after his transfer to Minnesota: "I had just been released from one month in the hole.... My nearly five hours of being chained in transit had caused every muscle and bone to ache.... I had not slept for two days. My stab wounds still throbbed.... And now I was being told that I was to be interred, once again, in the airless vault of seclusion."

In stir, of course, it's the people you meet who make up for any unpleasantness. Early on, Wachtler met Elvis, Sam Cooke, and Adolf Hitler—all fellow inmates in the Butner psychiatric wing. Later, he encountered spies such as Jonathan Pollard and alleged mobsters Joe Aiuppa and Venero "Benny Eggs" Mangano. There's the art thief who described loot he had taken from Boston's Isabella Stewart Gardner Museum and the book bandit whose stash of 19,000 rare volumes included the 1480 Coburger Bible and a first edition of Walt Whitman's *Leaves of Grass*. And, it goes

without saying, there were the drug-dealers in quantities large and, more often, small.

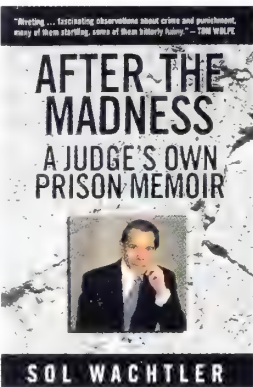
It's this latter category of prisoner that most frequently inspires Wachtler to climb onto his soapbox. Observing that 80% of new federal prisoners since 1987 have been drug offenders, he inveighs against the guidelines that have taken sentencing discretion away from judges. "Under the Reagan-era approach of 'zero tolerance,' the punishment for possession of 100 grams of marijuana is the same as for the possession of 100 grams of heroin: a mandatory 5- to 40-year sentence with no chance of parole," Wachtler tells us. By contrast, "the average time spent by a murderer in American prisons is nine years." Wachtler concludes that there should be punishment alternatives for victimless crimes, that society should focus on locking up the violent, and that real emphasis must be placed on drug rehabilitation. Elsewhere, he denounces

capital punishment, conspiracy laws that have the effect of nabbing more little fish than big ones, and grand juries.

There's little that's startling in the legal analysis—or in Wachtler's statements about his own case. He admits he did it all but wonders why Silverman called the law rather than just telling him to stop.

It's all quite sad and tawdry. Wachtler was a self-made man who rose to the top of his profession. Today, his prison time behind him, he is shunned—but is hustling for work as a mediator. Does a day go by in which Wachtler fails to reflect on his prison experiences? It seems unlikely. There may even be times he will wish he had followed the advice given by his Rochester chums to a famous fugitive from justice. Glued to the TV screen, on which flickers the image of police in pursuit of O.J. Simpson's Bronco, the inmates hear an announcer say that Simpson is holding a gun to his head. They urge him to use it. Says one: "Do it, man, or else you going to die the way they want you to die."

BY HARDY GREEN
Green is BUSINESS WEEK's Books Editor.



WHAT REALLY GETS THE EX-JUDGE WORKED UP:
REAGAN-ERA MANDATORY SENTENCING GUIDELINES





ead of merely managing chaos, why not capitalize on it? For some, change is a threat, something that must be managed or great harm will befall. Nonsense. For the stout of heart, change is an opportunity. As the world's premier provider of scalable, manageable and secure Internet solutions, along with leading Internet consulting services, we can extend our enterprise to the world and propel your business forward. Don't get overwhelmed by change. Harness it at www.hp.com/go/computing **Capitalize on chaos.**

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Reviews and more are available on www.businessweek.com. Click on BW Plus

HOT TYPE

RUSH LIMBAUGH RECOMMENDS IT. SCADS OF people are reading it, seeking advice on how to get rich. But will *The Millionaire Next Door*, the No. 1 hardback on this month's best-seller list, give them what they want?

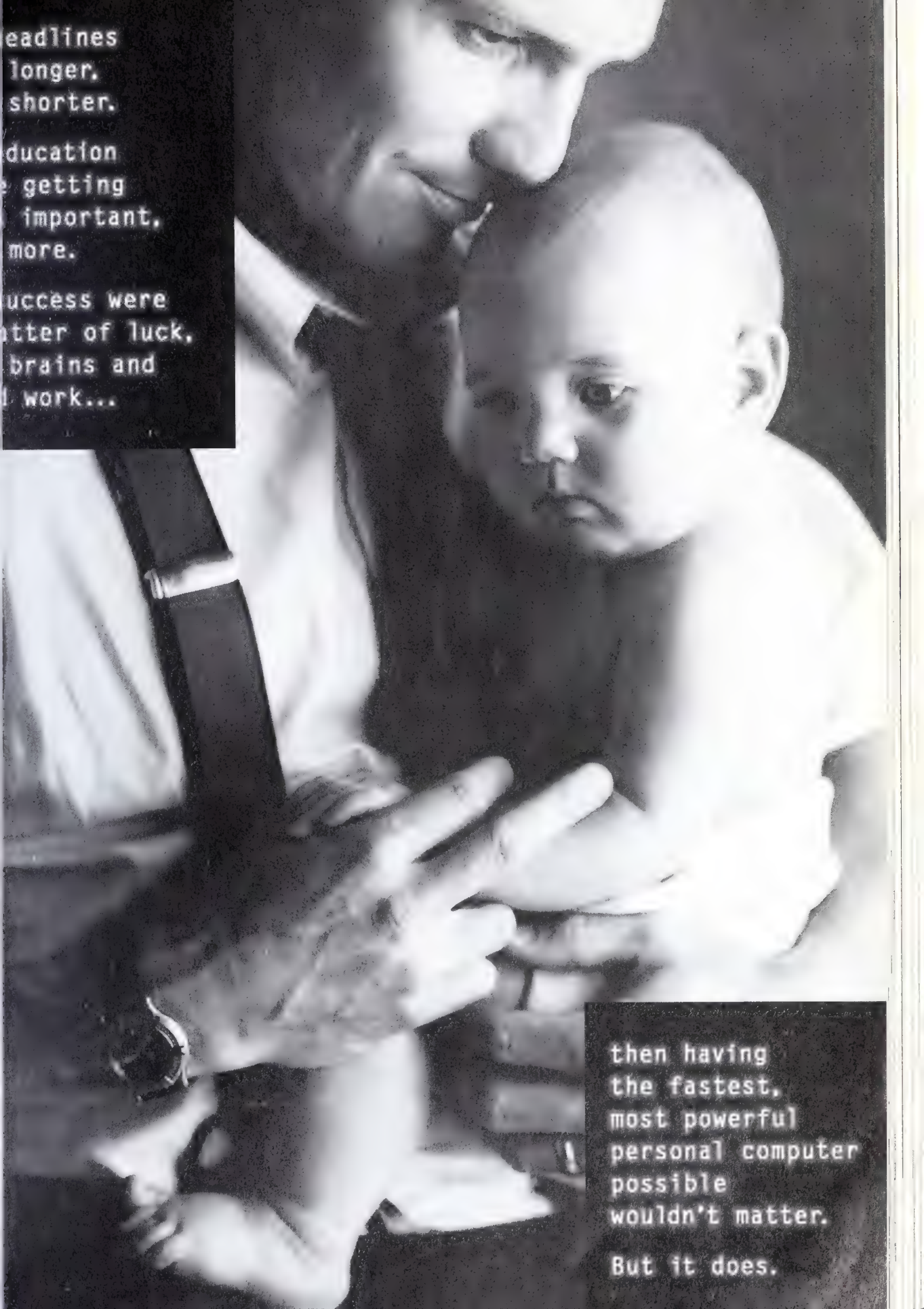
After surveying thousands of wealthy Americans, Thomas J. Stanley and William D. Danko have produced an interesting sociological work—an effort as much akin to C. Wright Mills's *White Collar* as it is to Peter Lynch's *Learn to Earn*. Their key insight: The folks you see driving Porsches toward their Greenwich (Conn.) houses probably aren't the moneybags they seem.

Instead, the authors say, most millionaires are compulsive scrimpers and savers who live unostentatiously, well below

their means. They work hard, mostly running their own businesses. They invest nearly 20% of their income but are piggy when it comes to charity. And while these millionaires' kids expect ample educational subsidies, males in particular should expect little "economic outpatient care" after age 21.

Does such a lifestyle appeal to you? If so, the authors have some counsel: Choose a line of work that caters to the rich, such as estate law or plastic surgery. Budget all your expenses, and apply time and energy to investing. And forget about that custom-tailored suit and the Porsche you've been lusty after. After all, if you want to be a millionaire, you gotta make sacrifices.

BY HARDY GREVIL



deadlines
longer,
shorter.
education
e getting
important,
more.

success were
matter of luck,
brains and
work...

then having
the fastest,
most powerful
personal computer
possible
wouldn't matter.

But it does.

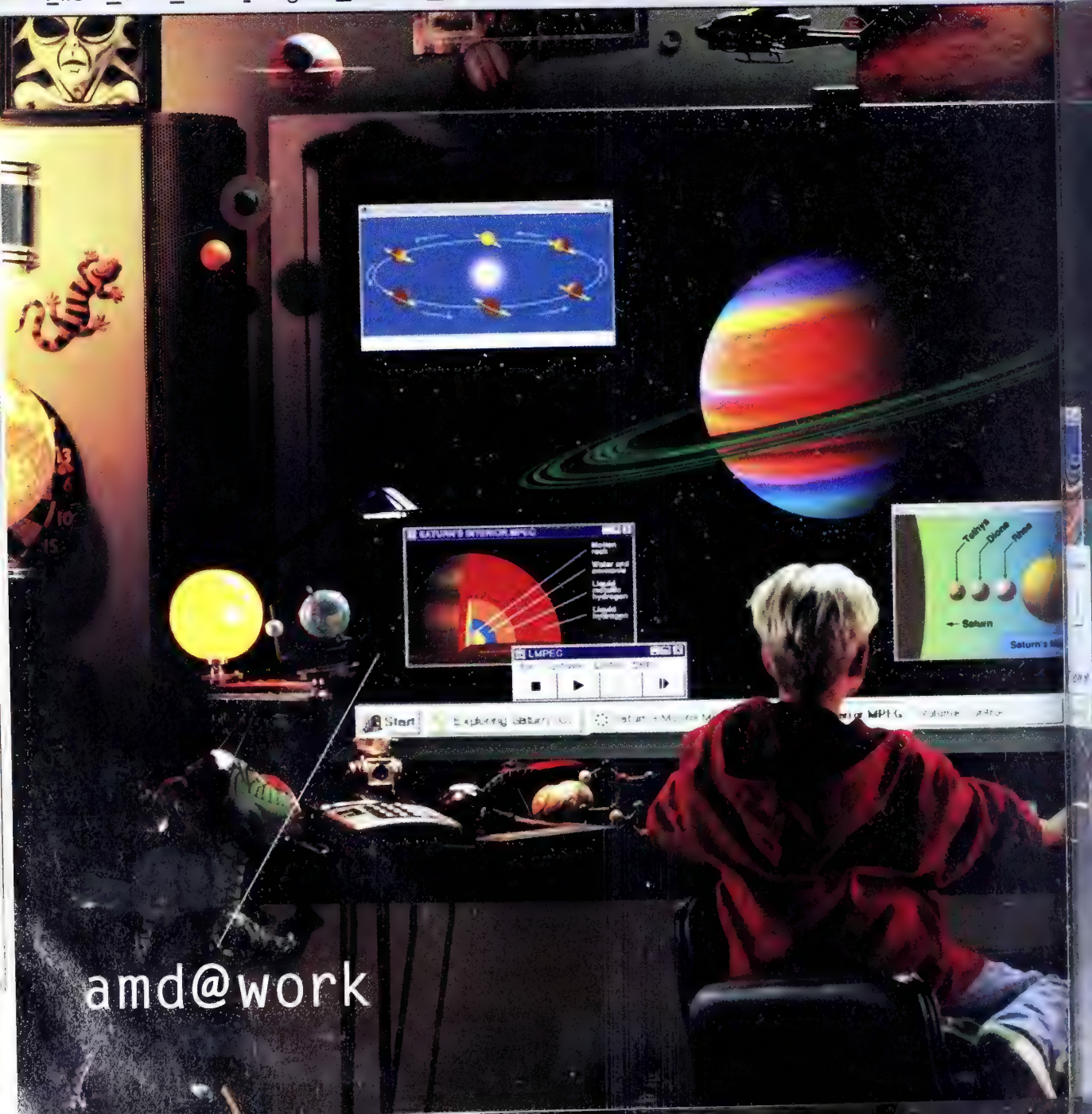
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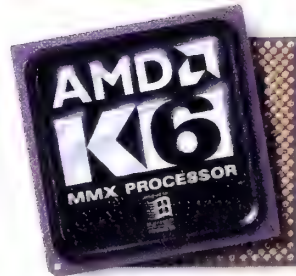
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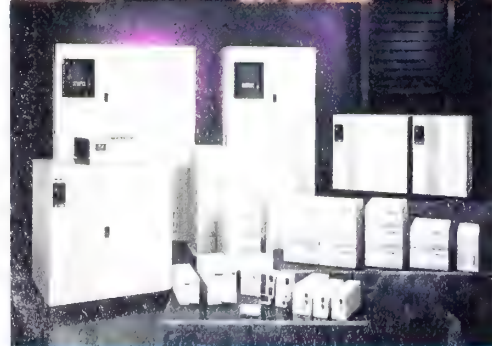
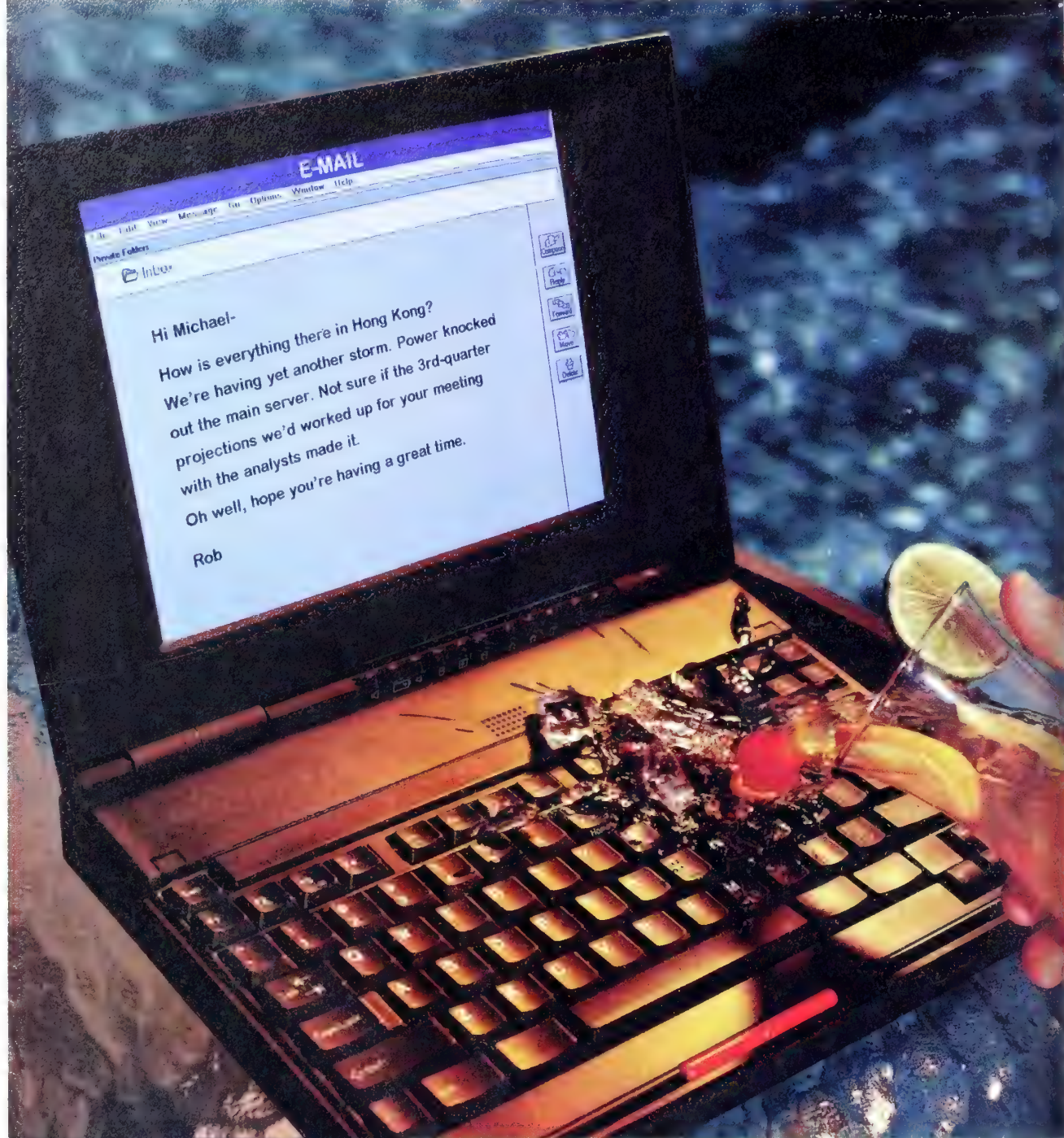
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PHEN H. WILDSTROM

DIGITAL PHOTOS JUST GOT SMARTER

Hewlett-Packard's
scanner and
printer take a
step forward

I've been excited about PC photography ever since digital cameras, desktop printers, and simple editing software hit consumer markets about 18 months ago. While the process is fun, the results have been disappointing. The systems aren't creating images for a minute or pictures of the type to be E-mailed to relatives, but results on paper are short of the humblest traditional snapshot.

Low-cost scanners and cameras just can't handle enough of the dots, or pixels, to make the smooth blend of the even tinier in a photograph. The results are pictures

that look fine on the screen, but the resolution never reaches 300 dots per inch, but the coarse and mottled printed.

ON. That's about to change dramatically. Hewlett-Packard will make it possible for amateurs to achieve near-professional results when it releases in mid-May, its PhotoSmart scanner and printer for \$95 at about \$500. (The companion \$400 PhotoSmart digital camera goes on sale in March.)

By getting high-quality images into the computer, the scanner solves the single problem confronting photo enthusiasts wanting to go digital. The new camera, while attractively priced, offers top reso-

lution of only 640x480 pixels, or roughly 80 dots per inch on an 8x10 picture. While typical of digital cameras costing less than \$1,000, that's not enough for good prints. To make things worse, the image quality of digital cameras is also hurt by the methods for compressing the data for storage. And these digital cameras are simple point-and-shoot models, lacking the flexibility of even the most modest single-lens reflex.

PRINTER

- True photo-quality output on special glossy paper
- Prints cost around \$2 for an 8x10

\$500

The trick is to use a scanner to capture the image produced by a conventional camera. The PhotoSmart scanner will handle prints up to 5x7 inches. But what sets it apart is the ability to scan slides and negatives, a feature until now available only in professional units costing at least twice as much. It scans film at 2,400 dots per inch. After trying out the setup, I have found that the images hold their quality in enlargements up to at least 8x10 inches.

Using the scanner could hardly be simpler. It comes with Microsoft Picture It! image-editing software, or you can use more sophisticated software, such as Micrografx Picture Publisher or Adobe Photoshop. You insert the

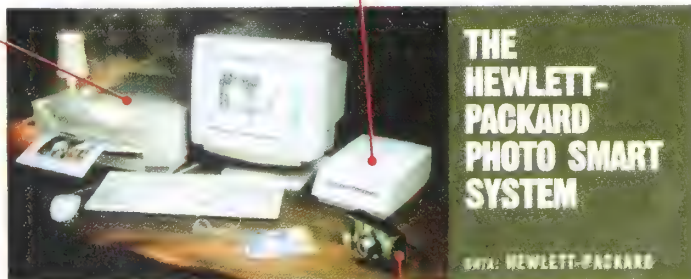
material to be scanned into a slot, click an on-screen button, and the scanner does a quick preliminary scan of a print, a slide, or in the case of negatives, an entire strip. You can crop and correct brightness, contrast, and color balance before the final scan, which delivers the image to your editing program.

Once you're finished editing your images, you are ready for the PhotoSmart printer. Unlike inkjet printers that allow you to use special ink cartridges for better photo results, the PhotoSmart is

SCANNER

- Handles prints to 5x7, mounted slides, or negatives
- Resolution to 2400 dots per inch

\$500



**THE
HEWLETT-
PACKARD
PHOTO SMART
SYSTEM**

DATA: HEWLETT-PACKARD

designed exclusively for photographic output. It is both mediocre and excruciatingly slow at printing text. And while it will print on a variety of surfaces including plain copier paper, it's a waste of this printer's abilities to use anything less than special photo paper.

This paper, which is sold by HP, Eastman Kodak, and others, looks very much like the resin-coated paper used to make photo prints. HP estimates that the combined cost of photo paper and ink will come to about \$2 for an 8x10, expensive for

computer output but cheap for photography. If you work from negatives, the system saves you the considerable cost of having a photofinisher make prints of every shot you take.

TIPS. At best quality, it takes the PhotoSmart about eight minutes to print out a full-page image. But it's worth the wait. The results look for all the world like photographs. Even with an 8x10 enlargement from a 35mm Kodacolor negative, I had to use a magnifying glass to find evidence that the image came from a computer printer rather than a darkroom.

One important difference between conventional photography and this new printer could be how they fade over time. HP claims its images will last indefinitely in an album or otherwise

stored in the dark.

Light will fade any color print, slowly turning it paler and bluer, and HP says inkjet images will suffer light damage faster than conventional photos.

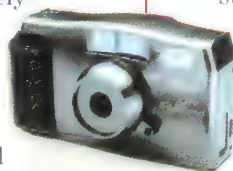
If you're taking pictures to frame and hang on the wall, the greater stability of conventional photo prints still make them your best bet. But that's not

the fate of most pictures. For \$1,000, an amount a photo hobbyist might drop on a first-rate lens, the HP PhotoSmart scanner and printer can get you into serious digital photography.

CAMERA

- 640x480 pixel resolution
- Stores up to 32 pictures on removable 2 MB memory card

\$400



BY ROBERT KUTTNER

OWNING UP TO THE COSTS OF FREE TRADE



FALLOUT:
Globalization is good in the long run, but a new book shows it also severely erodes the social contract between labor and capital

One of the most important economics books of the decade is a slim, 85-page volume by Harvard University economist Dani Rodrik, published in March, titled *Has Globalization Gone Too Far?* by the pro-free-trade Institute for International Economics. It concludes that freer trade is ultimately beneficial. But along the way, Rodrik asks his fellow economists for more humility and less condescension on the question of trade's domestic side effects.

Nearly all mainstream economists insist that freer trade is a win-win proposition. Rodrik is in the economic mainstream, but he takes his fellow economists to task for trivializing the costs of trade to domestic social peace. Trade, he writes, widens the disparity of bargaining power between owners of capital and ordinary employees. The fact that workers in different countries can more easily be substituted for each other, he concludes, undermines the postwar social bargain that allowed workers a steady increase in wages and benefits in exchange for labor peace. We should not turn to protectionist remedies, he writes, "but neither should we treat trade liberalization as an end in itself, without regard to how it affects broadly shared values at home."

As Rodrik observes, we as a nation have domestic norms, the products of painstakingly evolved social compromise. For example, we prohibit child labor. But when a company is free to hire children overseas, this is functionally identical to bringing child workers into the U.S. The public view, says Rodrik, which condemns both the outsourcing and the immigration, has "greater coherence," than the views of most trade economists.

SOCIAL CUSHIONS. Rodrik, comparing social outlays and economic openness in different nations, calculates that government expenditures expanded in the postwar era almost precisely in proportion to the "external risk" posed to a particular economy by trade. Austria, Sweden, Belgium, and the Netherlands, with small economies and large dependence on trade, developed extensive welfare states to cushion trade's domestic effects. Countries with larger economies and little import exposure, such as the U.S. and Japan, had smaller social cushions because they had less need for them. "[T]he social welfare state is the flip side of the open economy," Rodrik concludes.

But in the past two decades, Rodrik ob-

serves, this logic went into reverse. In short run, economic globalization may lead to domestic cushions. In the long run, however, it undermines domestic political support for public outlays. That's because globalization extends the political power of business and with its economic reach. Corporations are free to move to venues with lower cost labor and lower taxes; the burden of transitions are increasingly borne by workers. Rodrik's plea is that his fellow economists work to repair the social cushions, rather than ridiculing those who worry about dislocations.

If we fail to act, Rodrik warns, we face an ugly political backlash against trade, à la Buchanan-style. "And there is a second, perhaps even more serious danger: that globalization will contribute to social disintegration....[A] victory for globalization comes at the price of social disintegration will be a very hollow victory indeed...."

Rodrik's book is welcome for several reasons. Too many of his academic colleagues have indeed been breezily contemptuous of anyone warning that trade causes domestic dislocations. His particular contribution here is to recognize the complex causality of the process. It's not just that trade dislocates a few losers. Trade undermines the entire domestic mixed economy, by eroding its political and moral foundations.

Perhaps these insights, coming from a mainstream economist, will also give pause to commentators. No issue displays more unanimity among editorial writers than the virtues of trade and the selfish ignorance of "protectionists." To pick just one example of a large clippings file, Thomas L. Friedman in *The New York Times*, usually a voice of sense, betrays the typical blind spots in a column titled "Gephardt vs. Gore." "The antiglobalization movement, led by Pat Buchanan, writes, 'is still with us.' Democrats like Gephardt, Friedman contends, pander to Freer global commerce, he concludes, or to be 'a no-brainer.'"

But too often, this debate is a no-brainer in a different sense. Editorialists embrace an oversimplified version of standard economic wisdom (which is itself oversimplified) without thinking through the complex side effects. The next time a columnist is tempted to repeat the usual homilies, he should read Rodrik's thoughtful book first.

Robert Kuttner is co-editor of *The American Prospect* and author of *The End of Laissez-Faire*.

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BY GENE KORETZ

THE DOWNSIDE OF DOWNSIZING

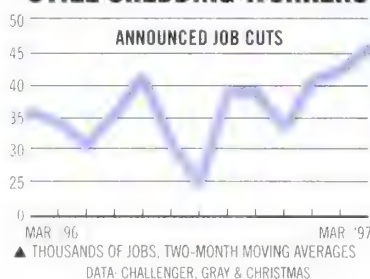
New evidence of layoffs' damage

Curiouser and curiouser. The U.S. expansion is entering its seventh year, with no end in sight. The unemployment rate, at 5.2%, is flirting with a seven-year low, and labor shortages are growing. Yet the downsizing trend continues unabated.

Challenger, Gray & Christmas Inc., an outplacement firm that monitors lay-off plans, reports that 50,182 job cuts were announced in March, a 15-month high. Meanwhile, notes a spokesman, "companies are turning more and more to outsourcing and contingent workers to meet demand increases."

The mystery to many observers, in light of the devastating impact on employee morale, is why companies continue to downsize when the benefits often prove elusive. A new Wharton School analysis of 52 studies of corporate restructuring, involving several thousand companies, found that financial restructuring (leveraged buyouts, recapitalizations, etc.) had the highest payoff in subsequent years, followed by portfolio restructuring, such as spin-offs

U.S. COMPANIES ARE STILL SHEDDING WORKERS



and sell-offs. On average, organizational restructuring, mainly downsizing, had little if any positive impact on earnings or stock market performance.

Indeed, it's the negative effects of downsizing that are becoming more and more apparent. In a just released survey of 62 major U.S. companies, more than 70% reported they were grappling with serious problems of low morale and mistrust of management caused by years of upheaval and restructuring. And an American Management Assn. survey of some 292 companies found

that those that had downsized since 1990 had seen a greater rise in disability claims than had nondownsizeers.

Job-cutting may be coming back to haunt companies in other ways. According to a recent article in *Across the Board*, a Conference Board magazine, many managers are suing for wrongful discharge—and collecting. Well over half of executive and middle managers filing wrongful termination suits win settlements, the article reports.

A RED FLAG FOR WALL STREET

Are big investors overconfident?

Investment advisers often provide a reverse cue to the stock market's direction—especially when the cycle is about to turn. That's because they tend to be most upbeat at market peaks just before prices take a dive, and most morose just as stocks are hitting bottom.

From that standpoint, the news that advisory sentiment (as reported by *Investor's Intelligence*) has faltered in the past month bodes well for a market recovery. But Robert Scott and Gerard MacDonell of *The Bank Credit Analyst* aren't so sure. Noting that investment advisers often change their tune in response to small market moves, they have devised an indicator that reflects the less volatile views of major investors such as mutual funds and pension funds.

The new *BCA* yardstick is based on the relative costs of put and call options on the Standard & Poor's 500-stock index. Puts, the rights to sell index options at a certain price, give investors protection on the downside, so their costs go up when investors are pessimistic. By contrast, calls are rights to buy stock index options at a set price, so investors will bid up calls when they expect stock prices to move higher.

The researchers report that the relative prices of calls behaved in true contrarian fashion in 1987, soaring to new heights just before the market crash and falling like stones in its wake. Then, after trending up for several years, the prices of index calls relative to puts moved sharply higher late in 1996—and, most ominously, have continued to rise even after the latest market correction.

"Institutional investors," concludes MacDonell, "have apparently become deeply complacent about the long-run outlook for stocks. To those who remember the '87 debacle, that could be a sign of more trouble ahead."

BUYING MORE OF AMERICA'S DEBT

Some see risks in overseas holding

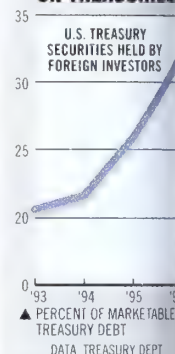
Are America's financial markets a interest rates hostage to the whims of foreign investors? Judging by the amount of Treasury securities bought by overseas central banks and investors last year, you might think so.

On a net basis, foreign buyers snapped up \$225 billion worth of Treasury bills, notes, and bonds—twice as much as the federal deficit. Foreigners own about a third of marketable federal debt, up from 20% three years ago.

Despite this trend, Joe Rooney, Lehman Brothers' global strategist in London, isn't worried. He notes that foreign ownership of all U.S. financial assets, equities plus corporate and government debt, came to just 8.5% in the third quarter 1996, compared with 4.8% in early 1993.

After such an extended period of U.S. trade deficits, the surprising thing, says Rooney, is that the foreign exposure to U.S. securities is still so small. Given the global trend toward increased trade and financial interdependence, he thinks the chance of a big exit from U.S. financial assets is negligible.

FOREIGNERS LOAD ON TREASURIES

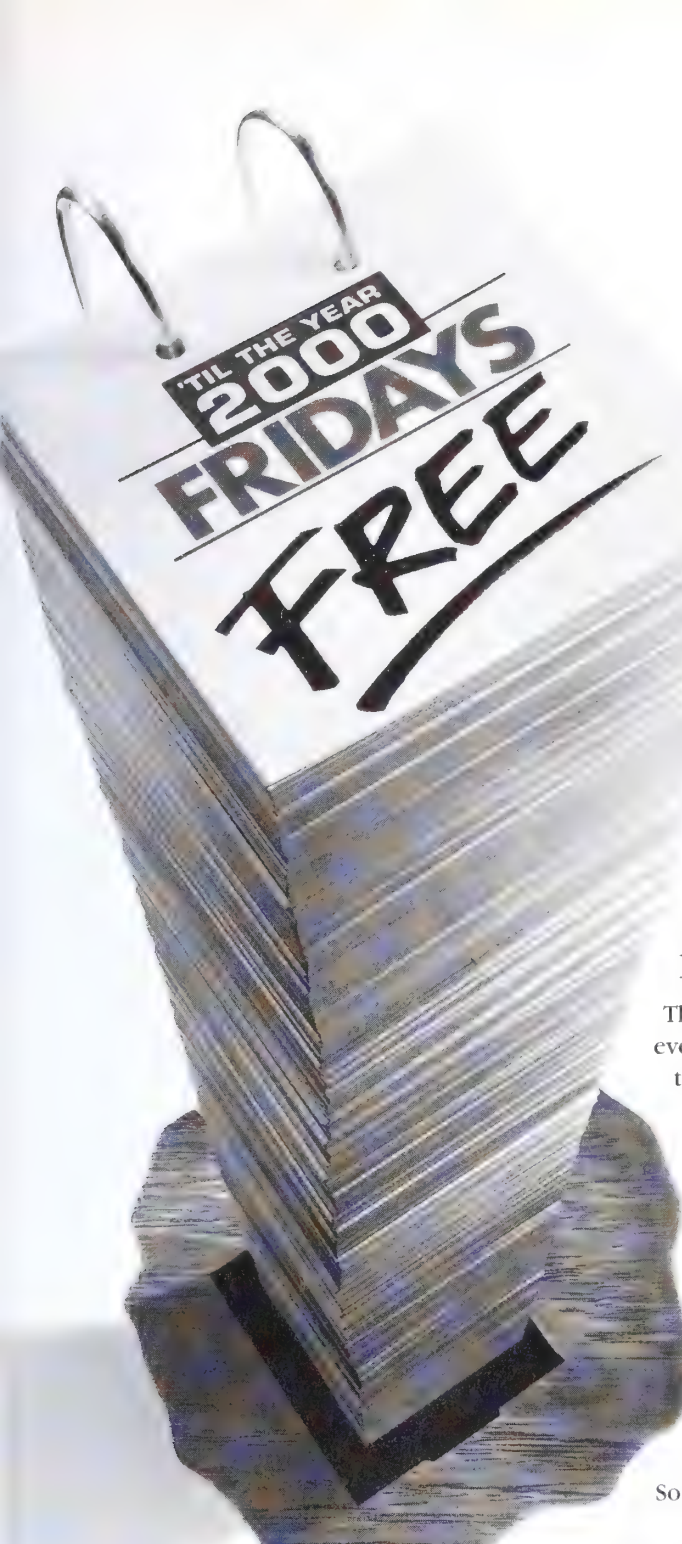


MORE OOMPH IN THE JOB ROLLS

Growth in '96 outpaced estimates

As it has throughout the expansion, the Labor Dept. underestimated employment growth last year. Its revisions of regional data based on payroll records show that job rolls overall rose by 2.5%, vs. the 2.2% originally reported—a difference of 350,000 jobs.

Only Hawaii and the District of Columbia suffered job declines last year, though four states—Alaska, Indiana, Maine, and Wyoming—posted increases of less than 1%. The leading job gainers: Nevada (7.7%), Arizona (5.4%), Utah (4.6%), Oregon (3.8%), and Washington and New Hampshire (both 3.4%).



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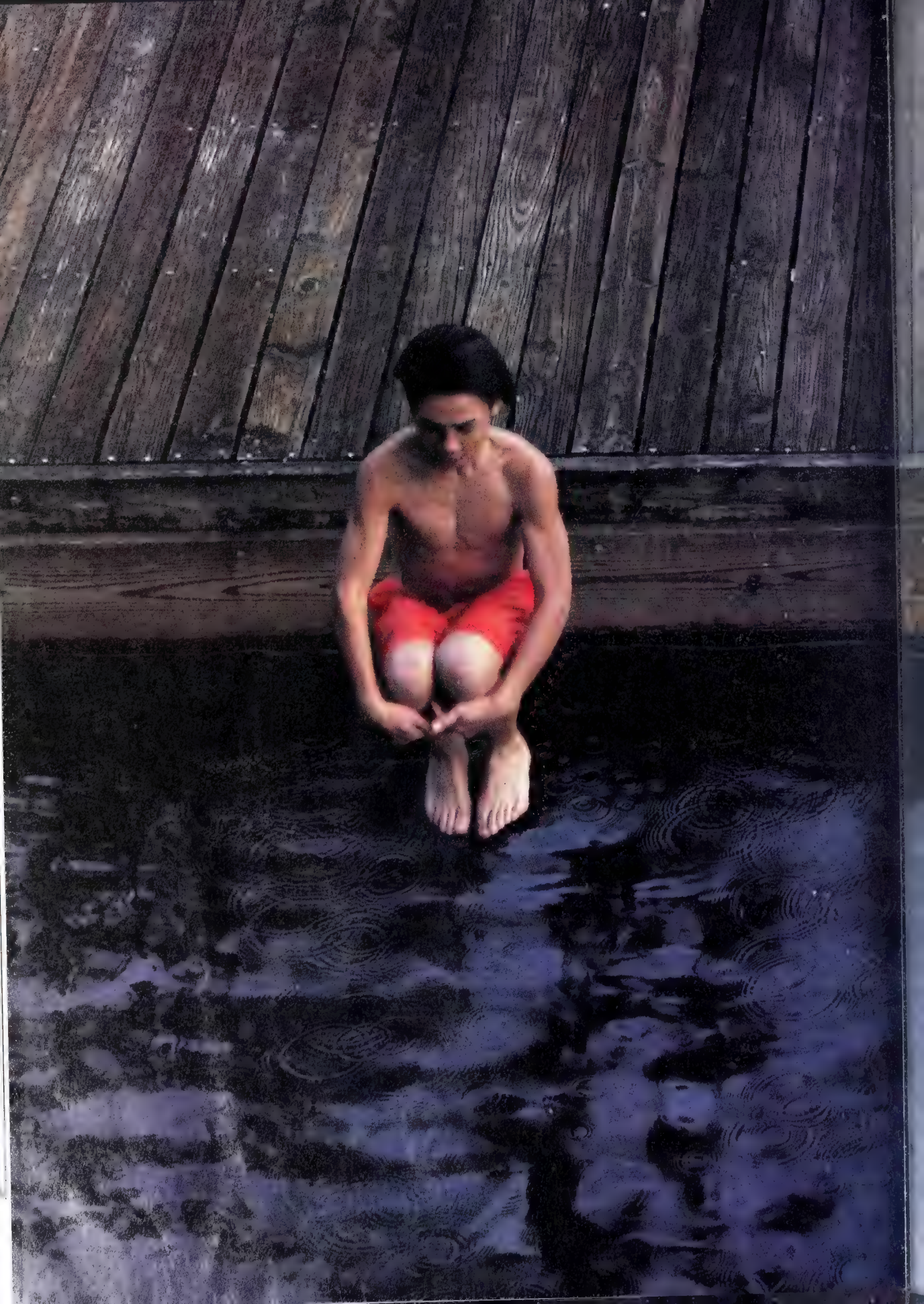
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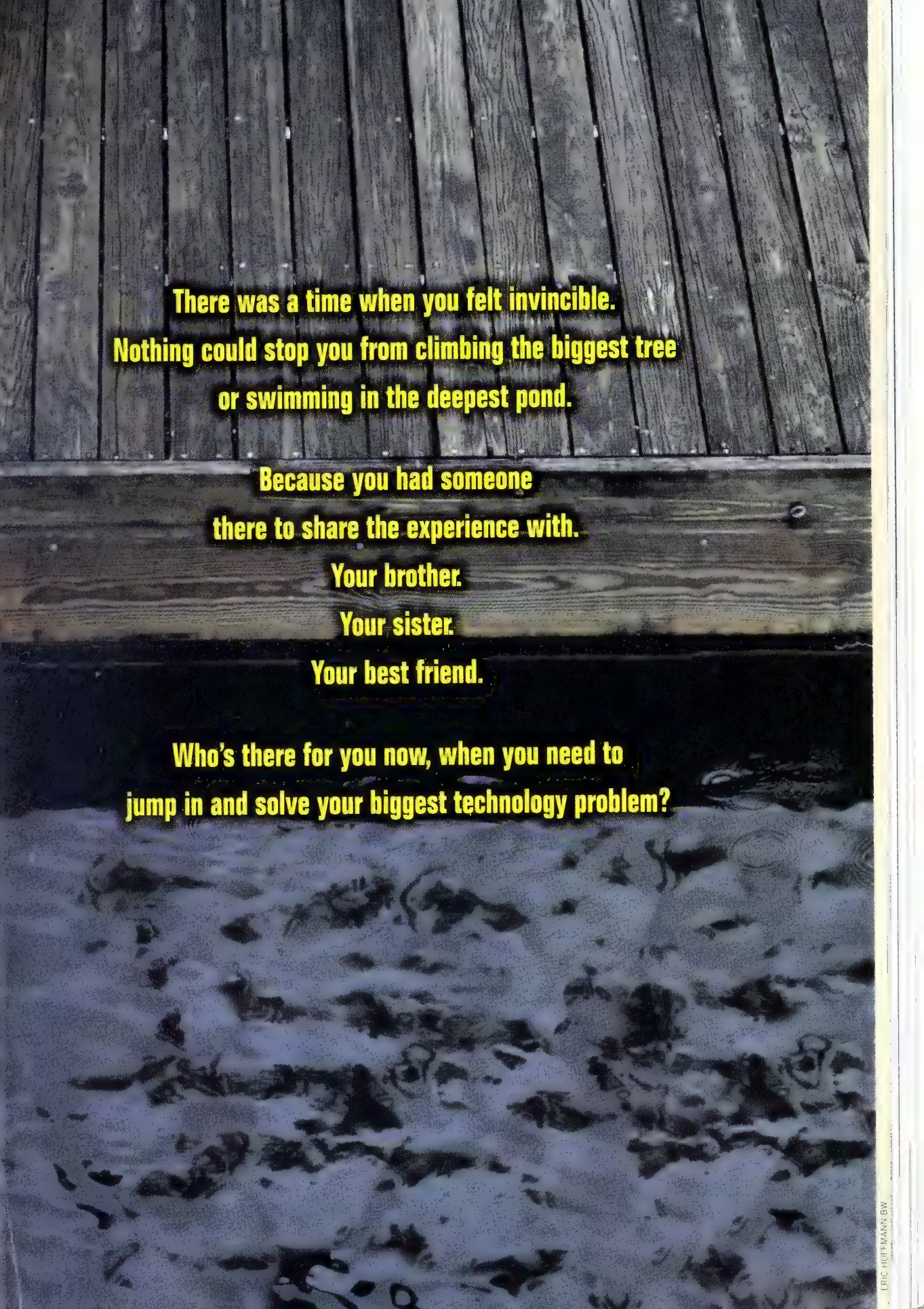
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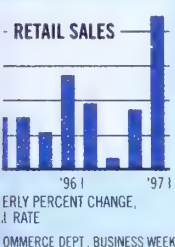
If the data on spending and output stay this strong, all bets are off

S. ECONOMY

With her classic audacity, Mae West once said: "Too much of anything can be wonderful." Of course, she wasn't an economist. Most analysts still believe that the economy's excessively robust pace over the past two quarters will taper off sooner rather than later with only a light tap on the brakes by the Federal Reserve. However, this startling strength—and its possible ripple effect through this quarter—is starting to raise worrisome questions about the outlook.

In particular, a new possibility is flashing its first blip on the radar screens of many forecasters. Call it the boom-and-bust scenario, in which explosive growth is met by a sharper-than-expected hike in interest rates by the Fed in 1997, resulting in extreme weakness or even recession in 1998. The prospect of higher rates and sour earnings would hit Wall Street hard.

RETAIL SALES



Don't panic. For now, that outlook is still as unlikely as a Tiger Woods bogey. However, it is going to get increased attention as long as the economy continues to outperform expectations. The scenario goes something like this: Unabated demand amid low inventories would feed a burst of inventory rebuilding, generating strong gains in output and employment well into the second half. Continued growth at the economy's noninflationary speed limit, generally thought to be no higher than 2%, would come at the expense of already rising concern that an overly strong economy could fuel inflation.

The latest data are starting to fit the boom part. Retail sales show that consumers are fueling the fastest quarterly growth in overall demand since 1987 (3.1%). At the same time, inventory-sales ratios are at historic lows, with stock levels especially thin at retail and wholesalers. And March industrial production picked up briskly, as did operating rates.

MOST LIKELY OUTLOOK

right now is that the Fed will not have to slam on the brakes, partly because monetary policy is already somewhat restrictive, based on the non-adjusted federal funds rate. Also, consumers are expected to take a breather after their recent spending spree, and capital spending outside of high tech has

been slowing. Housing starts, down 6% in March, remain at a high level, but rising mortgage rates could limit growth. Moreover, despite some unruliness in March producer prices, consumer prices remain well-behaved. There is still plenty of capacity around the world, and the strong dollar is restraining prices.

But if the data continue to look as strong as those in recent weeks, all bets are off. To begin with, consumers are on a tear, fueled by the strongest labor markets in years and rising real wages. Retail sales in March rose 0.2%, but the surprise in the government's report was the upward revision to February buying, which was refigured to show a 1.5% jump, nearly twice the originally reported gain. And that rise came on top of a 1.7% surge in January.

For the first quarter, retail sales rose at an annual rate of 13.1% from the fourth quarter, the largest gain in 10 years. March car-buying in the retail report actually fell, but those numbers are misleading. Unit sales, which are used in the calculation of gross domestic product, rose strongly. As a result, real consumer spending on goods and services appears to have grown in the neighborhood of 6%, at an annual rate, and that's two-thirds of real GDP.

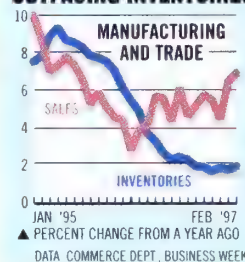
It would be unusual, indeed, for spending to continue at that pace this quarter. For one thing, a mild winter in some regions brought out more shoppers, and early tax refunds provided a lift. In fact, weekly retail surveys show less zip in early-April buying. But with the labor markets so strong, first-quarter income easily matched that outside pace of spending. Indeed, what could derail the conventional forecast is that the labor markets remain strong, generating plenty of income for households to spend.

VIBRANT GROWTH IN DEMAND

is already outstripping the recent pace of business inventories (chart). Stock levels in manufacturing, wholesale, and retail trade rose 0.3% in February, but sales jumped 1.4%. In January, stock levels were up 0.4%, with sales advancing 1.2%.

Even before the first quarter, sales had outpaced inventories for most of 1996, as businesses continued to

ROBUST DEMAND IS OUTPACING INVENTORIES



ERIC HOFFMANN/BW

Business Outlook

adjust their stockpiles after the 1995 round of overbuilding. But now, the sudden surge in demand appears to have reduced stock levels too much. The ratio of inventory to sales in both wholesaling and nonauto retailing are at levels not seen since the recovery of the early 1980s. Restoring those stocks back to normal will generate orders and fuel production gains for manufacturers in coming months.

To be sure, some of these inventory needs will be supplied by imports, but not all. Already, factory output is gaining steam (chart). Overall industrial production rose 0.9% in March, after a 0.6% increase in February, and manufacturing output was up 0.9% in both February and March. The gains have been broad, including strong growth in cars, home appliances, and business equipment, especially high-tech items.

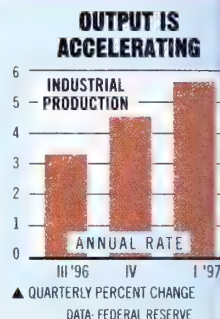
MOREOVER, FACTORY OUTPUT continues to grow faster than new capacity is being put into place. The factory operating rate rose to 83.3% in March, the highest in two years. That, plus slower delivery times, means that strong demand is starting to tighten up the production and distribution of factory goods, a situation that often precedes price pressures, and further output gains in coming months will intensify whatever strains are already growing.

To date, there is little evidence of accelerating inflation. Indeed, a recent study by the Dallas Fed sug-

gests that the link between high industrial operating rates and future inflation has lessened over the decade because of increased global capacity and expansive monetary policy. But will demand slow quickly enough to avoid a further buildup in inflation pressures? Consumer prices remained tame in March, rising only 0.1%, with the core index, which excludes energy and food, up a benign 0.2%.

However, the producer price index raised some eyebrows. The overall PPI fell 0.1%, pulled down by lower energy prices, but the core index rose 0.4%, the largest gain in about 1½ years. Moreover, further back in the production process, inflation for intermediate and crude goods excluding energy and food is starting to turn up. A strong economy will only fuel those pressures.

What all economists agree on right now is that the economy is going to slow, either with a gradual doozy or a slam on the brakes. Whatever the likelihood of the boom-bust scenario, its key point is that the Fed will not stop hiking rates until the economy slows. And the bearish mood on Wall Street won't go away until the Fed stops tightening.



ARGENTINA

FEELING WALL STREET'S CHILL

Argentina continues to pull out of its 1995 recession, but higher rates in the U.S. and trade grumbles in Brazil could slow growth in the second half.

Private economists expect real gross domestic product to grow about 4.5% in 1997, after a 4.4% gain in 1996, and a 4.6% drop in 1995 after Mexico's peso devaluation plunged much of Latin America into recession. Faster growth may ease some of the unrest caused by high unemployment as well as help to hold down the government deficit. Inflation is expected to rise, but only to 1% to 2%, after consumer prices showed almost no change in 1996.

Business investment should lead

1997 growth, but it will widen the trade deficit, since most of the capital goods will be imported. The trade deficit for the first two months of 1997 rose to \$606 million, vs. \$336 million in the same period of 1996. On a 12-month moving average, which smooths out volatility, the trade balance is in deficit for the first time in 1½ years (chart). January and February imports jumped 35% above their year-ago levels, with gains in a broad

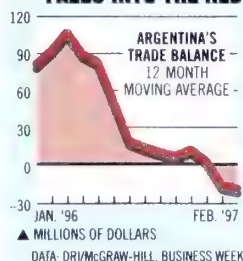
range of goods.

Exports are up 29% so far this year and will continue to rise given Latin America's expected upturn. Brazil, however, has begun to restrict its imports by curbing

financing. That move raises questions about the Mercosur Bloc trading group, and Argentina's ability to sell to Brazil, its biggest trading partner. Any slowdown in exports will hurt industrial production, up 7.9% over the year ended in February, as well as worsen the trade deficit.

The wider trade gap is partly why growth in the first half will look stronger than in the second half. Another reason is that fiscal policy will be easier ahead of the midyear elections, but spending will slow afterwards. Also, the jitters in U.S. financial markets are rippling through other bourses, hurting Argentine stocks and lifting bond yields. The worry, of course, is that a higher cost of capital will kick in just as business spending is expected to add momentum to the recovery.

THE TRADE PICTURE FALLS INTO THE RED



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TIGER

Has any athlete, anywhere, anytime come this far this fast? In the space of a little more than seven months, Eldrick "Tiger" Woods has become a sports legend whose name is spoken in the same breath as Babe Ruth, Jackie Robinson, Pelé, Muhammad Ali, and Michael Jordan.

At 21, he has turned the whitebread world of golf on its ear, captured the imaginations of millions who know nothing about the game, and positioned himself as arguably the most sought-after pitchman in America. And his first year as a pro is far from over.

Are we all getting a little hyperbolic here? Probably. But it's hard not to be infected by the phenomenon that is Tiger Woods. Certainly, his rocket trip to fame and fortune has a good deal to do with the Electronic Age. In a nanosecond or two, his blowout win at the Masters—besting his closest opponent by 12 strokes—was news all over the globe. But in a world going nuts for golf, there is more to the instant mystique than a kid with a club who can make those little white balls do anything he wants.

For one thing, he is an underdog. Maybe not to the other players on the PGA Tour. But to the world outside of golf, he is an African American/Asian American in a white man's game. He is a Generation-Y'er in what is widely thought of as an older man's sport. And he's handsome, focused, poised, thoughtful—and maybe even socially responsible. Did somebody say they were looking for a hero?

LESS IS MORE?

For now, Woods's agent wants just a few very big deals

Success, however, is coming at Tiger Woods with a rush that could topple a redwood. The President is on the horn. Corporate America is begging to give him millions to sell its wares. The golf business can suddenly divide its history into B.T. (before Tiger) and A.T. (after Tiger). And his father, Earl, among others, is talking of Tiger as a bridge between races, between nations—as a bridge to God knows where. General Powell in a Nike hat.

So hot is the hype that David A. Davis of Los Angeles investment bank Houlahan, Lokey, Howard & Zukin figures that if Woods decided to sell Tiger-backed bonds, he could easily raise \$100 million.

Make no mistake. Tiger is—as he is invariably described—"cool." But you'd expect that from someone who knows the limelight like the back nine at Augusta National. Born to Kultida "Tida" and Earl Woods in Cypress, Calif., in 1975, Tiger was deemed a golf prodigy before he took his first steps.

NIKE
Athletic
shoes and
apparel
\$40 Million

**ALL STAR
CAFE**
Celebrity
restaurant chain
\$7 Million*

* IN PLANET HOLLYWOOD STOCK.
ESTIMATED VALUE AS OF APR. 16
DATA BUSINESS WEEK

In seven months, he has taken the golf world by storm and made millions. Can he handle the crush of success?

The Myth now has it that Tiger was on the practice green 18 months, though the world got its first peek at him when a 2-year-old he putted impressively against Bob Hope on the Mike Douglas TV show. That caught the attention of Hughes Norton of International Management Group, the powerful agency and sports marketing firm that now represents Tiger. So did stories that this toddler was shooting a 48 for nine holes. **MADDING CROWD.** Still, it wasn't until Tiger began his remarkable winning streak as a teenage amateur golfer—all, he won three straight U.S. Golf Assn. Junior Titles and three consecutive U.S. Amateur championships—that Norton began seriously courting him. As a freshman at Stanford University, Tiger's star burned brighter than ever: He won the 1996 National Collegiate Athletic Assn. championship before signing with IMG and turning pro in August.

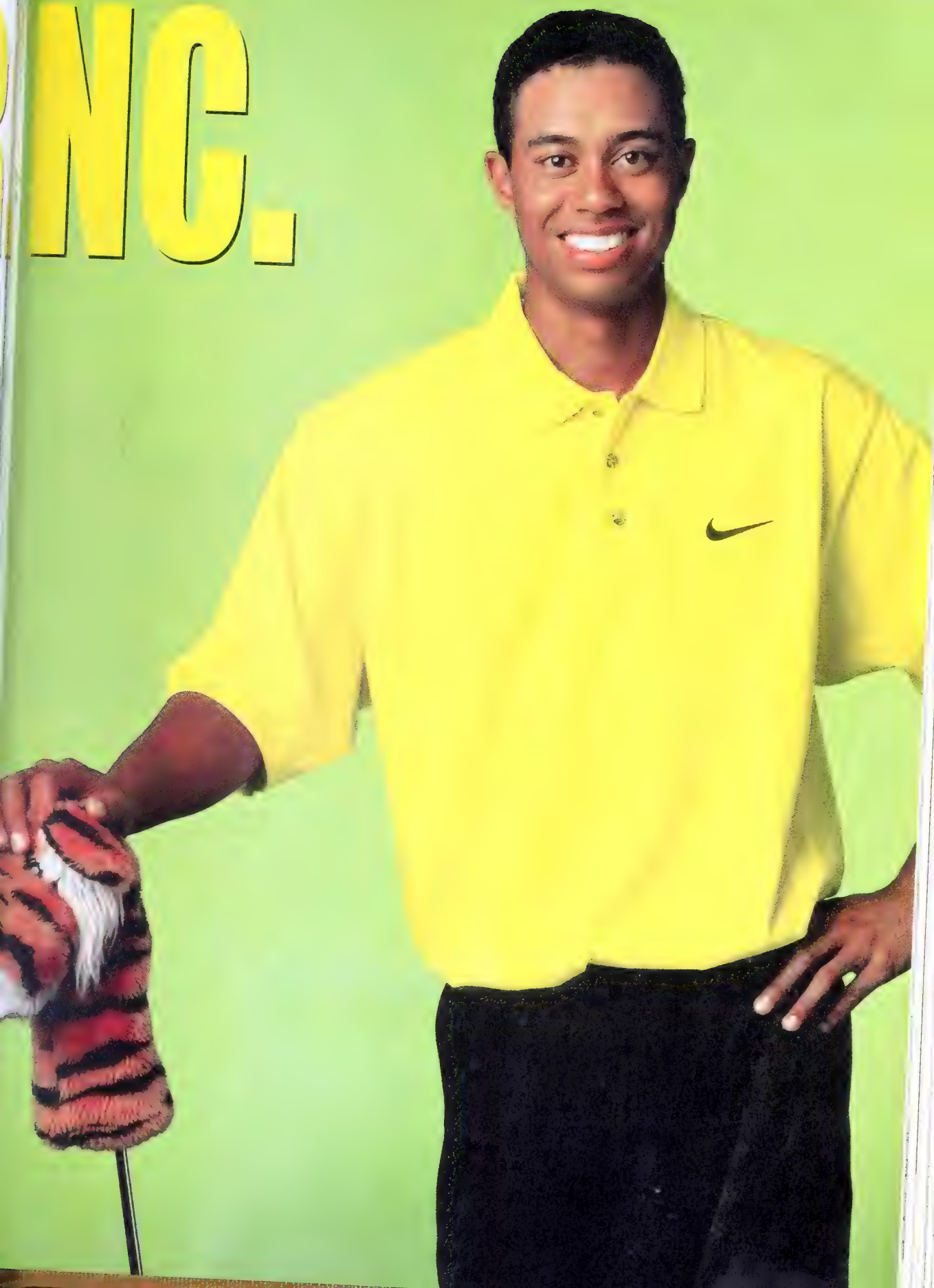
All that having been said, Tiger is not Houdini. Can he keep his eye on the golf ball? Build a bigger roster of Gra-

**TITLEIST/
COBRA**
Golf clubs, balls
and equipment
\$20 Million

endorsement deals? Satisfy the sure-to-increase demands of the PGA Tour, his handlers at International Management Group, and TV? Stave off overexposure? Survive intense scrutiny? And serve as the role model that he thinks it is his duty to be? At IMG, the strategy put together by Norton is already under assault. For the short haul, Norton figured, Tiger should just sign a few fat multiyear contracts with top-shelf companies. Say, \$40 million from Nike, \$10 million from Titleist/Cobra, and stock in Planet Hollywood International, parent of the Official All Star Cafe, now worth about \$7 million. But Norton's minimalist game plan is being rocked by the maddening corporate crowd at the gate.

McDonald's Corp., for instance, months ago dismissed the idea of signing Tiger despite Norton's pleading that Mickey D's and his guy were made for each other. Like a lot of 2-year-olds, the kid is known to scarf down a Big Mac and a large order of salty fries several times a week. Norton says McDonald's execs worried that Nike Inc. had already ruined

ING.



Tiger's image with its first edgy ads in which he said there were still golf courses in America that wouldn't let him play. But guess who Norton says was calling the Monday after the Masters to try and cut a deal? For now at least, Norton says Tiger will confine his interest in McDonald's to its menu. (McDonald's claims that it hasn't approached him.)

You'd expect that the rush and the clamor of instant stardom would be a blur in Tiger's eye and a din in his ear. But just as he became his own man on the greens—breaking away from his dad, the ex-Green Beret lieutenant colonel who taught him golf—Woods seems to be responding to the business pressures thrust upon him by taking control. He's incorporated as ETW Inc. to shield his assets, moved to Florida (where there's no income tax), and, overwhelmed by fans on commercial flights, invested in a private jet. Not bad for a guy who's filing an income tax return for the first time this year.

"This is my life," Tiger said in a phone interview two days after the Masters, "and anything that involves my time, I want to have a say-so. Other people making decisions for me—if they think that's for me, then we're going to have a clash. And that's what you don't want to happen."

On a sunny morning in Florida in early March, Tiger was sitting in a conference room at the Isleworth Country Club, not far from his three-bedroom villa—a more modest affair than the mansions of neighbors Ken Griffey Jr. and IMG's Mr. Big, Mark H. McCormack. Sipping juice and munching from the spread of fruit and pastries, he listened intently to a marketing skull session between his IMG handlers and a half-dozen creative types from Nike. Unimpressed with the yammering about the shape of his next ad campaign, he told the room: "I'm still a kid. And I really think people forget that. I want my next spot to show me as still being a kid."

THROWING CASH. Being a kid may be a clue to a future endorsement contract. IMG is in talks with automobile and credit-card companies, but a beverage deal might well be the logical move because it would help Tiger broaden appeal to young people. After all, golf isn't hoops—yet. "We want him to connect with the grunges—and the grandmothers," says Norton.

"Coke, Gatorade, or Pepsi, you know that they are already making the calls," says Lon Rosen, Magic Johnson's agent and president of Los Angeles-based First Team Marketing. "He's a natural for them. This kid is the real thing.... There are going to be people throwing all kinds of money at him. Five hundred grand here, a hundred grand there. But your public sees you for the kinds of things you endorse. You endorse second-rate products, and they start to think you're second-rate, too."

Richard Zien, a partner in the Los Angeles firm Mendelsohn/Zien Advertising Inc., believes Tiger has a crucial quality—getting the crowd to identify with him. "Larry Bird was just as great a basketball player as Magic Johnson," he says, "but Bird got virtually no endorsements and Magic got so many because [Johnson] had the ability to reach out and grab the crowd." Tiger has the same thing, says Zien. "He wants to win every time out, he

wants to make his opponents fear him. The crowd feels that, they're drawn to that pure aggression."

A beverage deal would move Tiger beyond the less-than-endorsement strategy originally conceived by Norton, as would a watch endorsement now being wrapped up. "I'm certain that the core contracts—that is the clothes, shoes, and hat he wears, the clubs he plays with, the golf ball he hits, the bag he carries—would bring unprecedented amounts of money for Tiger. I felt those core agreements would essentially set him up for life," says Norton.

The approach struck a chord with Woods and his family.



YES! Tiger exults at the Masters. Norton has reason to grin, too

who worried that loading him up with endorsement deals while he was still new to the PGA Tour might lead to burnout. "We agreed to set up a moratorium not to do any endorsements until he could get six months under his belt as professional," Norton explains. Adds his mother, Kultida: "We are not a greedy family. We're not the type of family to sell out our son to get a lot of money."

"The real issue," says Tiger, "is that if I'm spread too thin with a lot of endorsements, then my golf is going to suffer. That is what I don't want to happen."

Of course, no one wants his game to suffer—least of all the

golfing Establishment, which aims to ride Tiger's increasingly broad coattails right into the next century. "Short term, [his] impact has already been great. We've seen television ratings and attendance up for tournaments where he didn't play just because of the attention he's bringing to the game," says PGA Tour Commissioner Timothy W. Finchem. Golf hasn't quite attained Super Bowl status yet, but Nielsen gave CBS a 14.1 rating and a 3 share for the final round of the Masters. That means roughly 14 million

BEST-PERFORMING GOLF STOCKS

COMPANY	IPD DATE/PRICE	RETURN SINCE IPO*
CALLAWAY GOLF (ELY)	2/92 2.5	1150%
ASHWORTH (ASHW)	3/88 0.75	891.7
SPORT HALEY (SPOR)	4/94 5.0	230.0
VISUAL EDGE SYSTEMS (EDGE)	7/96 5.0	100.0
CUTTER & BUCK (CBUK)	8/95 7.88	68.3
NATIONAL GOLF PROPERTIES (TEE)	8/93 20.38	44.8
GOLF TRUST OF AMERICA (GTA)	2/97 23.25	10.8

* Returns through Apr. 15, 1997

DATA: GOLF INSIGHT & INVESTING

people saw Tiger do his thing in the most closely watched golf tournament in history.

But wait, there is an even more amazing number attributable to the buzz about Tiger: For the 25 minutes that the tournament slopped over into prime time in the East, it posted a 20.2 rating and a 39 share. CBS has no shows that check up those kinds of numbers. Indeed, only *ER* has a 39 share. You can be sure that they are stats the PGA Tour will be pulling out later this year when a couple of its key tournaments come up for bidding. Fox, for one, has been desperate to get into golf since 1994, when Rupert Murdoch and Greg Norman unsuccessfully attempted to launch a golf league.

The upside for the game from the mania for young Woods certainly outweighs the drawbacks—it's golf has to get this Tiger thing. Because of his drawing power and right to choose where he plays, Woods can turn a ho-hum tournament into an overnight mania.

NEW PHONE SYSTEM. At the Motorola Western Open in Lamont, Cal., where Woods has said he will play in early July, Barry Cronin, director of sports marketing, says a crowd of 250,000 is expected—up from 170,000 last year. "The phone hasn't stopped ringing since Monday morning," says Mary Elizabeth Griffin, a receptionist at the Western Golf Assn., which coordinates the event. "We put in a new phone system that increased the lines from 6 to 11. People want to know if Tiger is coming. I've never seen anything like this."

Jim L. Awtrey, CEO of PGA of America, figures that if Tiger decides to play a lot, he could show up for 18 or 20 of the 45 PGA events scheduled for this year. But he can play overseas if he gets an exemption from PGA Committee (how could he say no?), and IMG controls or has relationships with a number of foreign tournaments. Since any overseas tournaments pay appearance fees, that only increases the power of Woods and IMG.

Woods's influence on the golf equipment business promises to be equally intense. Cobra Golf founder and Vice-Chairman Thomas L. Crow predicts that the Tiger deal will raise a lot of boats. "All the manufacturers have an opportunity to feed off Tiger," he says.

Retailers probably won't do too badly either. Corinne Pinsof-Kaplan, owner of Chicago Golf & Tennis Co., says that since April 9, the day before the Masters began, sales have tripled. "There has been a tremendous impact, considering that it rained in Chicago all last weekend," says Pinsof-Kaplan. "Woods is going to help my month significantly. People have been coming in for Titleist balls and Nike shoes. It's the best Nike has done in my store."

That sort of immediate impact raises a question in the world of ads and endorsements: Does Tiger have Nike, or does Nike

have Tiger? Says adman Zien: "The question is whether he is so closely identified with Nike that anyone will ever take him seriously as a spokesman for a car or anything else. Nike owns him."

It certainly felt that way as Nike troops returned to Beaverton,

Ore., from the taking of the Masters in Augusta, Ga. Veterans and newcomers alike—elated by their man's stunning performance—were high-fiving all across the company's rambling campus, with its statues of many of modern history's greatest athletes. That was in sharp contrast to the initial responses of some insiders last year to Nike's \$40 million deal with Tiger.

Back then, some employees openly questioned the wisdom of spending so much money on a relatively unknown athlete in a sport Nike had all but ignored before. But, says Nelson Farris, a 24-year Nike veteran who is director of corporate education, CEO Philip H. Knight stuck with his gut. "Knight saw that this kid represents the core

stuff we always talk about around here. He has this unique character that transcends everything. Knight selected this kid to be a Nike guy because he saw that the pieces

were there for greatness."

The morning after the Masters, Nike was looking like the big genius in Corporate America. But as Farris so rightly points out, Knight and Nike were bullish from the beginning. Just days after signing Woods on Aug. 28, Nike took the unprecedented step of pulling some 20 TV ads it had scheduled to run during the Labor Day weekend and replacing them with spots featuring Tiger. At the time, golf-related products made up just 1% of Nike's overall revenues.

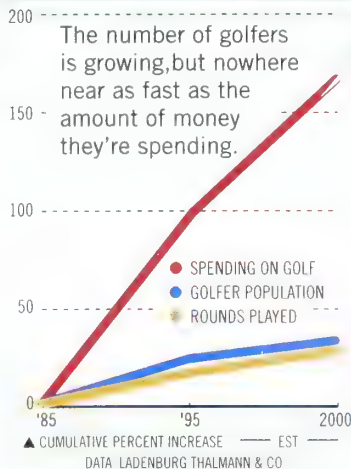
Now, Nike expects its fledgling golf biz to reach \$180 million in revenues by the end of fiscal 1998. That would represent a 60% increase over fiscal '97. Next spring, Nike will launch a Tiger Woods apparel line, and shortly thereafter, a line of golf footwear. "It may be the end of loud pants and loud shirts," says Sean Brenner, editor of newsletter *Team Marketing Report*. "His taste in clothing might redefine what people wear on the golf course the way Michael Jordan's taste in basketball shorts influenced what basketball players wanted to wear in the courts."

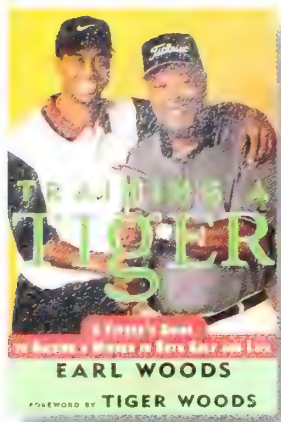
More immediately, says Rodney J. Tallman, director of marketing for Nike Golf, the company is spending \$2 million on a congratulatory TV campaign that was ex-



PARTNERS: Tiger and tennis' Monica Seles at an All Star Cafe opening; Titleist and Nike print ads

THE GREENING OF GOLF





EARL'S BOOK, just out, is in its second printing

pected to hit the airwaves on Apr. 16. "On [Masters] Sunday," says Tallman, "the Tiger era began in golf. His visibility right now is second to none."

But is Tiger already too visible? "The last thing you want to see is for IMG to run him so hard around the world that he tires his ass out," says Crow of Cobra. Adds Lewis Jones, deputy media director at J. Walter Thompson in New York: "There is a lot of risk in people trying to strike while the iron is hot. If you miss it, it will never happen again. But the question is when to strike and when to wait and when to pull back. It's a complicated business, and not a lot of people know when to make those choices."

And in this era in which the bigger your celebrity, the more your private life seems to get dissected, one agent worries that the Tiger media frenzy is certain to attract more than gentle sports writers. Already, there is talk about the children from a first marriage that Earl Woods left behind and trouble in his current marriage to Tiger's Thai-born mother. "That's ridiculous," says Kultida. "This really bugs me. White people have three or four houses, and it's O.K. for them, but when minorities do that, somehow it means we're split." Says Jones: "You don't know what [young stars] are going to say once the press gets to them. He looks like he can handle it, but I am not sure that he has had as much as he is going to get."

FRESH AIR. For now, though, the media can't stop cooing over Tiger. One reason is that to a public tired of trash-talking, spit-hurling, head-butting sports millionaires, Tiger is a breath of fresh air. "Quite frankly," says Tiger, "I think it's an honor to be a role model to one person or maybe more than that. If you are ever given a chance to be a role model, I think you should always take it because you can influence a person's life in a positive light, and that's what I want to do. That's what it's all about."

No one disputes that Tiger has awakened a lot of people who found watching a golf tournament just slightly more energizing than laying your head on a fluffy pillow. But can he really bridge the divide between African Americans and Asian Americans, between black America and white America, between the privileged and the disadvantaged?

"I think Tiger has been able to do what very few golfers have been able to do in the past—he made golf 'cool,'" observes John Morrison, director of the Los Angeles LPGA Ur-

ban Golf Program. He says the number of kids in his program has ballooned since Woods went pro.

Says David Falkner, author of *Great Time Coming: The Life of Jackie Robinson From Baseball to Birmingham*: "What Tiger has done is less significant than what Jackie Robinson did. Robinson was a person up against a national color barrier rather than a color barrier in one section of society. Jackie...helped to trigger the civil-rights movement. As spectacular as Tiger Woods's accomplishments are, I don't think they have the same social significance."

Alan C. Page, a pro football Hall of Famer and since 1993 an associate justice of the Minnesota Supreme Court, believes Tiger Woods has a real contribution to make—but he may not make it tomorrow. "We as a society like to look at the short term for long-term answers," says Page, who founded the Page Education Foundation, which awards grants to minority students willing to work with disadvantaged children in their communities. "This is a very young man who has a lot to contribute and will face a lot of challenges along the way. That's what life is about. Hopefully, he will grow and mature in ways that make what we see today even better."

Rick Bradley, who heads William Morris Agency Inc. sport unit, isn't so sure that Tiger will have a major impact on black America: "He translates to the MTV generation a lot more than he does to the inner city."

The fact is, with so much pressure on his young shoulders, Tiger may soon find that he can't be all things to all people and still stay focused on golf. Lon Rosen, Magic Johnson's agent, says that recently Tiger came to visit Magic on the set of a photo shoot. Rosen says Magic sat down with Tiger and told him: "There's going to be a lot of people who are pulling at you. You just have to be yourself—not who they want you to be." Even for a Tiger, that's going to be tough.

By Ron Stodghill II in Cleveland, Ronald Grover in Los Angeles, Gail DeGeorge in Miami, Linda Himmelstein in San Francisco, Richard A. Melcher and A. T. Palmer in Chicago, and Mark Hyman in Baltimore

TOP OF THE HEAP IN ENDORSEMENTS

Athlete	Total annual contract
1. MICHAEL JORDAN	\$40 Million
2. SHAQUILLE O'NEAL	17
3. ARNOLD PALMER	15
4. ANDRE AGASSI	13
5. TIGER WOODS	10
6. DALE EARNHARDT	8.5
7. DENNIS RODMAN	8.5
8. MICHAEL SCHUMACHER	8
9. PETE SAMPRAS	8
10. JACK NICKLAUS	8

DATA: IEG SPONSORSHIP REPORT, CHICAGO

TIGER SPEAKS

ON GOLF AND KIDS

“In order for the game to become hip and appealing to young people, they have to understand the history of the game. The history of the game is that it's always been an elitist type of sport in which only a person with a substantial economic base could play. And obviously, not all families have that. And I think that golf needs a person who is young enough and a lot like the

masses of kids to present this game to them as a sport that they, too, can play. And right now, I seem to be the one who is in that position, but a lot of other people are right behind me.”

ON GOLF AND RACE

“Race might be an overblown issue in such fully integrated sports as basketball or baseball. But golf is still difficult to penetrate. Some of the clubs are still closed. So I guess that is why a lot of minorities don't

play the game. So if you classify me as African American or Asian American, that's O.K. for now because golf has been predominantly a Caucasian sport. I think as more minorities enter the game and the influx of golfers increases...that issue is sure to become a dead issue.”

ON HOW HE'S PERCEIVED

“From my view, I don't think I've transcended the issue of race, but might have. It's just kind of hard to see from my side sometimes.”

TIGER MAY DRIVE ASIA'S GOLF NUTS EVEN WILDER

Nike and Titleist aren't just betting a combined \$60 million that Tiger Woods will take them to new heights in America—they are venturing that he will be their ticket to the vast golf markets of Asia.

Winning the Masters will only widen the popularity Woods enjoys as an Asian American with a Thai mother and a Buddhist heritage. Says his agent, Hughes Norton of International Management Group: "He can make a much bigger impact in the Pacific Rim than he has in the U.S." In November, Nike Golf plans to host a major event in Japan—with Tiger as its main attraction. Cobra Golf is considering marketing overseas a limited edition of the driver Tiger used in the Masters.

close to 100 courses by 2004, according to the Republic of China Golf Assn.

Some in the industry, such as Cappon, say Tiger will do for golf in Asia what Michael Chang has done for tennis. Others are less sanguine. What Tiger really will do, says Callaway Golf Co. President and CEO Donald H. Dye, is bring the already enormous popularity of golf in Asia to the attention of Americans.

Since the late 1980s, improving economies in Asia have translated into more disposable income and an appetite for the status symbols that accompany it. Tommy Armour Golf Co., already in every Asian market, anticipates that its strongest growth will come from Korea, says President

Yet golf in Asia isn't just about playing the game. In most of Asia, golf memberships can be bought and sold like stocks. At the peak of Japan's period of wild asset inflation in 1988-89, the combined value of memberships represented some 10% of Japan's gross domestic product. Post-bubble, prices have come down substantially.

WAITING LISTS. But golf shares in other Asian markets such as the Philippines and Singapore are still strong. Brokers often use the shares as a gauge of economic strength. In the Philippines, some bankers prefer the securities over real estate as collateral for loans. At the tony Manila Club in the Philippines, fewer than half of the members or



TEENING UP: At many of the multitiered ranges in Tokyo (left), starting times are required. Golf courses are even springing up in Ho Chi Minh City

Tiger may give golf the same sort of boost overseas that he is delivering in the U.S., but golf mania hit Asia long ago. Limited space means many Asian countries have built an entire golf culture around the driving range. "Go to any driving range [in Taiwan], and it is standing-room only," says John Cappelletti, assistant vice-president for marketing at Sports International, the leading golf tournament promoter in Taiwan. "Not only men but younger college kids and women." And at the multi-tiered ranges in Japan, starting times are required.

STATUS SYMBOL. With the opening of Sai Kung, the first public course in the working-class Hong Kong suburb of Tun Mun two years ago, some 10,000 new golfers have taken up the game, says Don Allison, director of golf development for the Hong Kong Golfing Assn. Even China will have

and CEO Michael Magerman. Unofficial estimates say there are more than 25 million golfers and 4,300 golf courses in the Asia-Pacific region. In the U.S., there are some 25 million golfers and 15,390 courses, according to the National Golf Foundation.

Japan, the second-largest golf market after the U.S., has been a driving force in bringing golf to the rest of Asia, but it is rapidly becoming a case of limited supply and increasing demand. The high cost of golfing at home—a round of golf can easily top \$200 per person—spurred a rash of course development across Asia. Many are designed by high-profile players such as Greg Norman, Jack Nicklaus, and Arnold Palmer. Now, many Japanese “find it much cheaper—even with airfare—to play elsewhere in Asia,” says Tad Fujimatsu, chairman of JAL International Services Inc. in New York.

shareholders are active golfers. Indeed, even nongolfers may find the \$1 million membership at the exclusive Hong Kong Golf Club—where the waiting list currently runs 19 years—a bargain.

Still, for all the hype and high cost of golfing memberships in Asia, Peter Yee, marketing director for the Hong Kong Debentures Exchange, which specializes in matching buyers with sellers, says the market is not as speculative as it once was. "Golf is a prestige thing here," he says, adding that judging from the handicaps he has seen, the golfers at the private clubs are only "so-so."

Come to think of it, that doesn't sound all that much different from a lot of country clubs in America.

*By Kerry Capell in New York,
with Dave Lindorff in Hong Kong,
Jonathan Moore in Taipei, and
Tomoko Takahashi in Tokyo*

THE LAST



Enjoy the first quarter's profits—it may be downhill from here

Shareholders, enjoy it while it lasts. The surging economy of 1997 is lifting Corporate America's bottom line to new highs. The 70 companies in BUSINESS WEEK's flash report on first-quarter profits cranked out a 30% increase in earnings over the same period in 1996 on just a 9% gain in sales. Profit reports that exceeded analysts' midquarter expectations outnumbered disappointments by two to one. When the final results are in from all companies, the overall increase will wind up below that of the flash sample. But there should still be a healthy double-digit increase—enough to give investors a respite from the barrage of bad news that has dogged Wall Street in recent weeks.

A breather, but a brief one. The first quarter may be the last this year to deliver such robust earnings gains. Rising labor costs, slowing productivity growth, and the strong dollar's hit on

	CURRENT QTR. SALES (MILLIONS)	% CHG.	QTR. PROFITS (MILLIONS)	% CHG.	EST. EPS (2/13)	REPORT E
INDUSTRIALS						
ABBOTT LABORATORIES	2,999.8	+12	534.8	+11	0.68	0.69
ALCOA	3,223.1	+2	159.1	-11	0.99	0.92
BOISE CASCADE	1,273.6	+4	-15.2	NM	-0.36	-0.51
CATERPILLAR	4,262.0	+11	394.0	+33	1.70	2.08
CHRYSLER	15,566.0	+7	1,029.0	+2	1.48	1.45
COCA-COLA	4,138.0	-2	987.0	+38	0.34	0.40
COCA-COLA ENT.	2,141.0	+34	-33.0	NM	-0.14	-0.27
COLGATE-PALMOLIVE	2,147.1	+5	169.6	+18	1.11	1.12
CONAGRA ††	5,635.0	-2	145.1	+13	0.63	0.63
CORNING	945.4	+13	92.0	+47	0.31	0.40
CPC INTERNATIONAL	2,149.5	+2	117.5	+9	0.87	0.79
DOLE FOOD	965.0	+18	42.0	+40	0.71	0.70
EASTMAN KODAK	3,133.0	-8	149.0	-46	0.91	0.82*
FORD MOTOR	36,202.0	+3	1,469.0	+125	0.90	1.20
GENERAL ELECTRIC	20,157.0	+18	1,677.0	+11	1.02	1.02
GENERAL MOTORS	42,260.0	+8	1,796.0	+125	2.06	2.30
GEORGIA-PACIFIC	3,145.0	+3	90.0	+80	0.34	0.99
GOODYEAR TIRE & RUBBER	3,230.0	0	170.4	+12	1.13	1.09
INLAND STEEL INDUSTRIES	1,207.3	+2	31.2	+82	0.45	0.59
INTERNATIONAL PAPER	4,900.0	+2	34.0	-65	0.30	0.11
JOHNSON & JOHNSON	5,715.0	+7	909.0	+15	0.68	0.68
MERCK	5,567.9	+23	1,020.3	+18	0.83	0.84
NIKE ††	2,423.6	+53	237.1	+77	0.71	0.80
NORTHROP GRUMMAN	1,964.0	+23	75.0	+23	1.27	1.30
OWENS CORNING	875.0	+3	42.0	+8	0.75	0.76
PFIZER	3,002.0	+12	602.0	+16	0.93	0.93
PHELPS DODGE	1,021.7	+2	137.5	-10	1.79	2.12
PHILIP MORRIS	18,217.0	+4	1,773.0	+13	0.74	0.73
REYNOLDS METALS	1,615.0	-3	43.0	+153	0.19	0.27*
RUBBERMAID	601.7	+13	34.0	-18	0.23	0.23
SHERWIN-WILLIAMS	1,069.8	+25	23.1	+18	0.13	0.13
TEXTRON	2,551.0	+15	125.0	+15	1.46	1.47
TRW	2,659.6	0	119.2	+2	0.92	0.92
SERVICES						
AMR	4,426.0	+3	152.0	-3	2.00	1.65
BANKAMERICA	NA	NA	780.0	+8	1.96	2.05
CHASE MANHATTAN	NA	NA	927.0	NM	1.98	2.01
CITICORP	NA	NA	995.0	+9	1.98	2.01
DOW JONES	606.0	+4	25.4	-33	0.27	0.27

overseas earnings all signal a profit squeeze ahead. And the surprisingly strong earnings reports suggest an overheating economy—some economists estimate that growth hit a blistering 5% annual pace from January through March.

That's likely to reinforce the Federal Reserve's determination to rein in the economy before inflation hits. Benign news on inflation—the consumer price

index rose only 0.1% in March—like the Dow Jones industrial average 228 points on Apr. 15 and 16. But won't keep the Fed from pulling the lever for a second rate hike on May 1. That expected increase, says Allen Schuchman, chief economist of Primark Decision Economics, will guarantee that "the quarter was the last hurrah for extraordinary growth." Profits will keep growing, but gains will slow to 6.7%

MURRAH?

	CURRENT QTR. SALES (MILLIONS)	% CHG.	QTR. PROFITS (MILLIONS)	% CHG.	EST. EPS (2/13)	REPORTED EPS	DIFF.
EXPRESS ††	5,300.0	+74	222.0	+4	0.95	0.88	-0.07
CHICAGO NBD	2,906.8	+15	63.0	+132	0.52	0.54	+0.02
	NA	NA	380.0	+12	1.14	1.17	+0.03
	1,076.8	+5	135.1	+56	0.86	0.96	+0.10
HILL	652.9	+12	15.0	-7	0.18	0.15	-0.03
LYNCH	7,451.0	+24	465.0	+13	1.86	2.34	+0.48
STANLEY GROUP	4,076.0	+23	316.0	+16	1.37	1.80	+0.43
(J.P.)	NA	NA	424.0	-3	1.92	2.04	+0.12
BANK	NA	NA	709.0	+38	0.94	1.07	+0.13
Y EXPRESS	590.7	+14	5.5	+111	0.30	0.27	-0.03
	4,077.8	+5	122.5	+27	0.49	0.51	+0.02
	2,184.0	-13	173.0	-44	1.41	1.37	-0.04
MERCHANDISE	686.4	-4	-107.2	NM	-0.22	-0.26*	-0.04
IT BANKS	NA	NA	161.1	+7	0.73	0.74	+0.01
RNER	3,034.0	+47	52.0	NM	-0.22	-0.05	+0.17
RS GROUP	5,928.0	+31	642.1	+23	0.90	0.96	+0.06
IOLOGY	32,206.6	+7	2,776.0	+69	0.88	0.91	+0.03
ID MICRO DEVICES	552.0	+1	13.0	-49	-0.02	0.09	+0.11
OMPUTER †	1,601.0	-27	-708.0	NM	-0.70	-1.48*	-0.78
WORKS ††	512.9	-2	0.3	-99	0.12	0.00	-0.12
COMPUTER	4,805.0	+14	387.0	+65	1.30	1.36	+0.06
CH	240.9	+6	31.6	-17	0.17	0.25	+0.08
ELECTRONICS	4,128.2	+14	235.2	-25	0.62	0.59	-0.03
	6,448.0	+39	1,983.0	+122	2.05	2.20	+0.15
LA	6,642.0	-5	325.0	-15	0.48	0.53	+0.05
IN	2,899.0	+5	183.4	-2	0.79	0.78	-0.01
OSYSTEMS ††	2,114.6	+15	223.5	+56	0.47	0.58	+0.11
STRUMENTS	2,263.0	-15	102.0	-23	0.57	0.52	-0.05
IES & TELECOM	14,891.4	+9	1,729.7	+6	0.79	0.81	+0.02
CH	3,859.0	+8	536.0	+12	0.96	0.97	+0.01
A GAS SYSTEM	1,527.7	+27	162.7	+8	2.93	2.94	+0.01
	5,281.0	+7	665.0	+8	0.70	0.69	-0.01
SON	604.8	-1	76.0	+4	0.49	0.51	+0.02
	3,618.9	+7	290.0	-7	0.62	0.67	+0.05

Quarter results †† Third-quarter results NM = not meaningful NA = not available *EPS adjusted for special items

A. STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE MCGRAW-HILL COMPANIES EARNINGS ESTIMATE DATA PROVIDED BY I/B/E/S

INTERNATIONAL INC., NEW YORK, NY. I/B/E/S IS A REGISTERED TRADEMARK OF I/B/E/S INTERNATIONAL INC.

of 1997—and 5.8% in 1998—according to a survey of investment strategists First Call Corp.

What does this mean for Wall Street? Earnings up and the Standard & Poor's 500 index down—off 7.5% from Feb. 16 peak—stocks now trade at 7 times expected earnings, down from 12. But that's not necessarily a buy signal. "People are selling the companies with good earnings because they figure

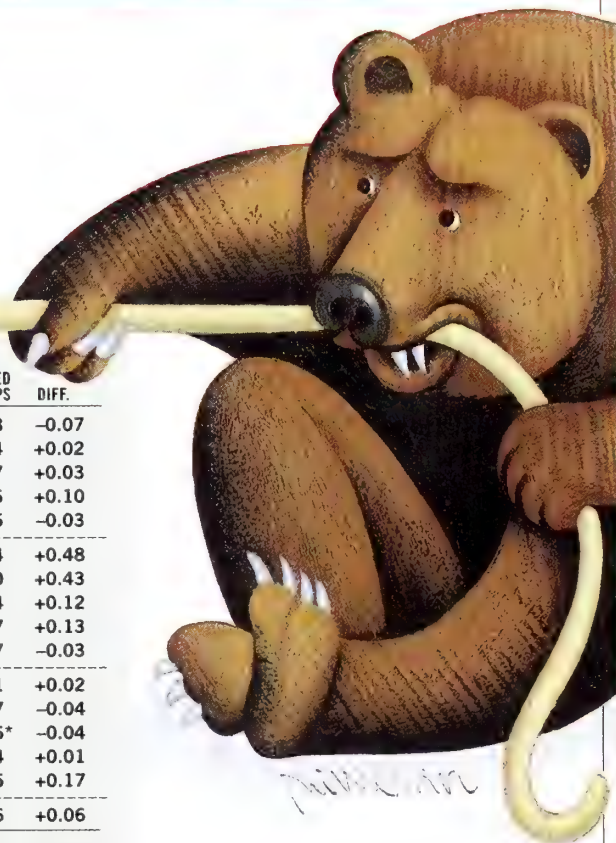
profits aren't going to get better," says Ronald C. Ognar, portfolio manager for the Strong Growth Fund.

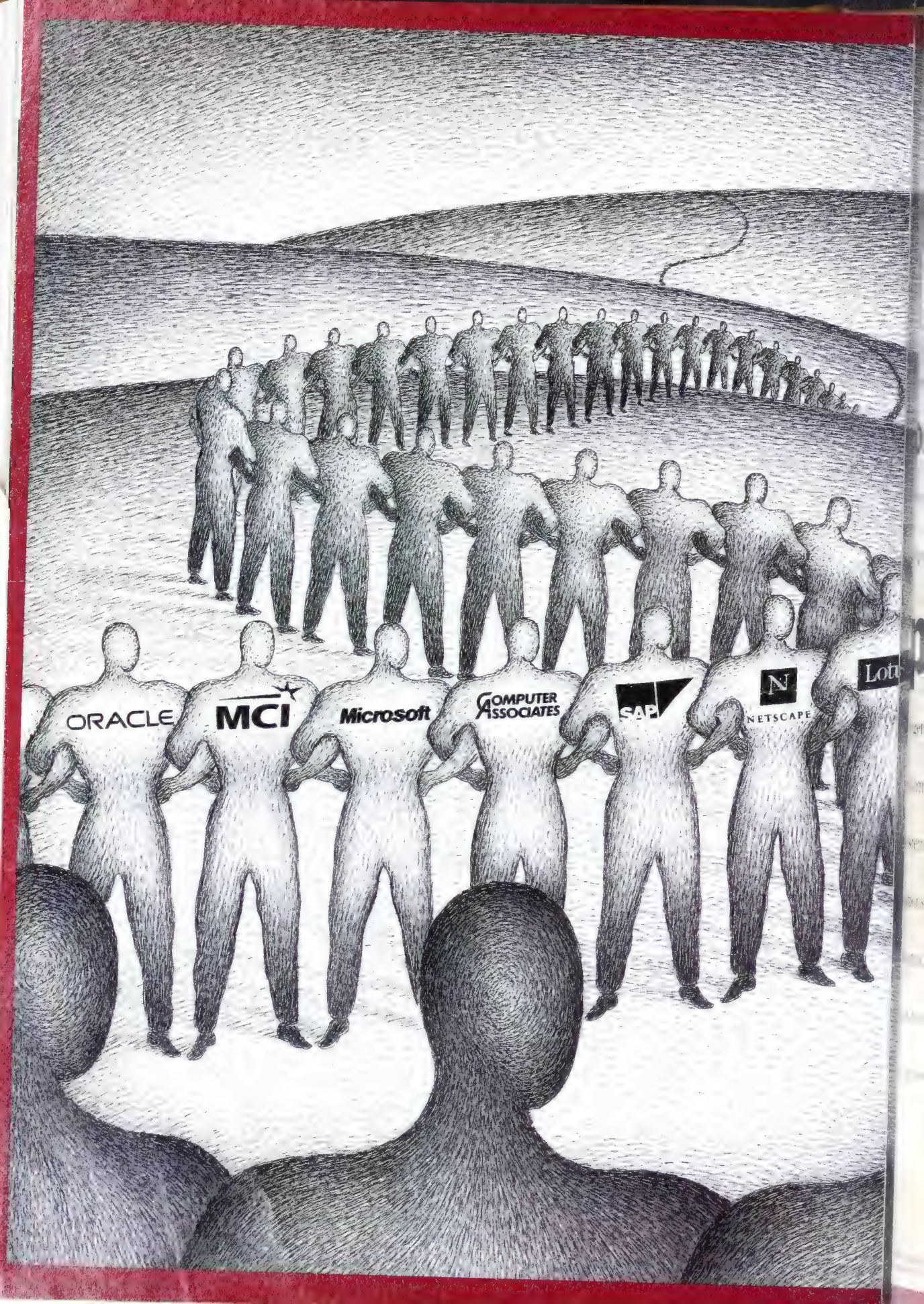
Wall Street's forward spin on earnings was clear in the market's treatment of Intel Corp. With technology driving both the boom economy and the bull market, the chipmaker that's inside 90% of all personal computers has been a bellwether. Intel boosted first-quarter profits by 122% on a sales gain of 39%,

thanks to a shift toward pricier Pentium MMX microprocessors. Earnings per share, at \$2.20, exceeded analysts' mid-quarter expectations by 7%, according to Wall Street-watcher I/B/E/S International Inc.

TECH SLIDE? But more telling was what Intel said about the future: Second-quarter revenues will be flat, executives say, and gross margins will shrink under pricing pressures and the costs of rolling out the Pentium II chip on May 7. Compaq Computer Corp. told a similar story. Its first-quarter profits rose 65% on a revenue gain of 14% as it sold more high-margin servers and workstations. But second-quarter profits will be flat, says CFO Earl Mason. Beleaguered Apple Computer Inc. lost \$708 million, including \$530 million of charges. Little wonder that despite the uptick in the Dow, high-tech stocks continue their slide. The NASDAQ Composite Index dropped 3.1% from Apr. 8 to Apr. 16.

Another key bull-market sector—financial services—enjoyed a solid first quarter. Profits rose at double-digit rates for brokers such as Merrill Lynch & Co. (up 13%) as well as banks such as First Chicago NBD (up 12%). One worrisome note: Credit-card chargeoffs rose, hitting 5.9% of outstanding card loans at Citicorp and 7.4% at First Chicago. And





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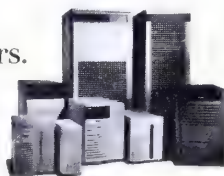
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Lotus

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higher rates later on can only hurt bank profits.

Detroit burned rubber in the first quarter. General Motors Corp., bouncing back from a strike-afflicted first quarter of 1996, posted a 125% gain in profits from continuing operations. GM's North American operations contributed \$764 million to the bottom line—the best return in more than a decade. Ford Motor Co. boosted net profits 125%—beating analysts' expectations by 33% with strong sales and \$800 million in cost cuts. Still, carmakers doubt that they'll maintain what has been a 15.5 million-unit annual pace. "The first quarter is probably the strongest we're going to see," says Ford CFO John Devine.

Some spots already show signs of a profit slowdown. Multinationals fret about the dollar, up 9% against the yen and 12% against the mark so far this year. Drugmaker Pfizer Inc. posted a solid 16% gain in first-quarter profits—but investors sold off its shares on management's warnings that the dollar would dampen growth in sales and earnings. For Eastman Kodak Co., the buck is already biting: Currency adjustments cost the bottom line more than \$22 million, contributing to a 46% drop in earnings.

Meanwhile, costs are rising at home for many businesses. With unemployment at a low 5.2%, unit labor costs are starting to climb faster than prices. "As employers dig deeper in the labor pool, they have a harder time finding productive workers," says Mark M. Zandi, chief economist for Regional Financial Associates Inc. Nor can companies count on low medical inflation to offset wage gains: Employers' health-care costs will rise 4% this year and could soar 10% or more in 1998.

RATE HIKE? Companies hoping to pass on these rising costs to ever-richer customers may be let down. Fed Chairman Alan Greenspan "has guaranteed us he's going to slow the economy," says investment strategist Charles J. Pradilla of Cowen & Co. That portends slower revenue growth and little tolerance for price hikes.

Disappointing? Well, if the prognosticators are right about single-digit profit growth ahead, we'll not likely see the bull of '96 return. But if the Fed can prolong the low-inflation economy, earnings should be strong enough to keep the bear at bay. And that, in an expansion heading toward its seventh year, ought to be success enough.

By Mike McNamee in Washington, with Jeffrey M. Laderman and Frederick F. Jespersen in New York and bureau reports

TECHNOLOGY

THE HOTTEST THING IN 'GREEN' WHEELS

Daimler's huge bet on fuel cells lights a fire under rivals

Today, the space shuttle is about the only vehicle using fuel cells, the high-tech wonders that turn hydrogen into electricity. But Daimler Benz wants to put fuel cells under your hood.

On Apr. 14, the German carmaker shocked the auto industry, when it vowed to sell 100,000 fuel-cell-powered cars in 2005. Daimler agreed to pay \$330 million to

launch a fuel-cell engine company with **DAIMLER DEMO:** How fast can the bugs be worked out?



FILL 'ER UP Once methanol is widely available, Daimler's new prototype would have unlimited range

Ballard Power Systems and to take a 25% stake in the Canadian fuel-cell maker. Their goal: a low-polluting fuel-cell system to one day supplant the internal combustion engine. Because of the deal, says Pandit G. Patil, director of the Advanced Automotive Technologies Office at the U.S. Energy Dept., "the future [for fuel cells] is brighter than ever."

HUGE EDGE. Indeed, in one bold stroke, Daimler has accelerated the race to perfect fuel cells. Rival carmakers must suddenly speed up their own fuel-cell research—or risk being left in the dust. Whoever can work the bugs out of the technology and cut the costs to the point that fuel-cell cars are practical could have a huge advantage in a new market for "green" wheels. "This is a sort of a revolution," says Jürgen Hub-

bert, Daimler's passenger-car chief.

The latest Ballard fuel cell will make its automotive debut late this year, says Hubbert. A prototype based on a Mercedes A-class model will use a converter that creates hydrogen from methanol to fuel the cell. Once methanol is widely available, the car would have unlimited range. That would give it a huge edge

over battery-powered electrics such as General Motors Corp.'s EV1.

Daimler has a head start in fuel cells, but all major carmakers are in the race. Toyota Motor Corp. unveiled a prototype car in October but hasn't decided whether to mass-produce it. Chrysler Corp. and GM are both experimenting with a prior Ballard design and are several years behind Daimler. For now, meanwhile, expect to have a running prototype by 2000.

But Daimler still has a lot to do to get production vehicles ready for 2005. Its biggest challenge will be cutting the cost of fuel cells. Even Ballard says it has cut costs by a factor of 10 to be competitive, and Ballard is more optimistic than Daimler. Then there is the cost of creating methanol filling stations nationwide, which Chrysler estimates at \$200 billion. And the entire fuel cell system must shrink to a sixth of its current size to fit in the compact A-class engine compartment. "We will need to overcome some big hurdles," concedes Ballard's chief financial officer, Mossadiq S. Umedaly. Then, Mercedes can start on the really big challenge: persuading customers to give up the old gas-burners.

By David Woodruff in Stuttgart and William C. Symonds in Toronto, with bureau reports

NEW FRONT IN THE WAR ON LAND MINES

Human rights activists are targeting components makers

Each year, exploding land mines kill or maim 26,000 people from Bosnia to Vietnam—mostly women and children. Planted along village paths or rice paddies, on grazing lands or in school playgrounds, the cheap, mass-produced weapons can remain active for up to 100 years after hostilities cease—only to be tripped by innocent victims. Now, Human Rights Watch, which normally wages campaigns against abusive governments, is targeting the companies behind the weapons. In a study released on Apr. 18, HRW identifies 47 U.S. electronics makers and defense contractors that have made components used in land mines. "The companies must be held accountable," says Andrew A. Cooper, author of the report. Even before its release, the study is having an impact. Seventeen of the companies named, including Motorola Inc. and Hughes Aircraft Co., have pledged better police the use of their products. HRW, veterans groups, and other activists are launching pickets and boycotts of companies that don't follow the example of those manufacturers.

LIQUID TOXIC. Other companies, among them Raytheon Co. and General Electric Co., say the task of controlling use of components is nearly impossible. Ingredients in land mines, such as transistors and plastic powders, are widely distributed and used in everything from car bumpers to alarm clocks. "You're talking about commodities here," says a Raytheon spokesman. "These are ubiquitous." Raytheon says it has sold the option that made mine components.

The tangled path of Lexan polycarbonate powder into Rwanda illustrates the difficulties in controlling how a product is used. Lexan is used in computer housings and fluorescent light fixtures. In 1993, though, the Netherlands sold some 10 tons of the material to Tecnovar Italiana—about perhaps 600 tons, but Tecnovar says it

bought from GE from 1979 to 1993.

Tecnovar used part of the 1993 shipment to make mine casings sold to the Egyptian government, which filled them with explosives and then renamed them, Tecnovar President Vito Fontana told BUSINESS WEEK. Two years later, the mines were sold to Rwanda's Hutu government, which used them as part of a massacre of more than 500,000 members of the Tutsi minority, Human Rights Watch says.

Tecnovar, for its part, appears contrite. "If I had known the parts would be used for mines in Rwanda, I would have never sold them to Egypt," says Fontana. "Although everything we did was completely legal, we are all guilty." The Egyptian government denies Fontana's account: "We wouldn't sell that kind of thing to warring parties," says Abdulalem Elabyad, minister of information for the Egyptian Embassy in Washington. GE acknowledges selling Lexan to Tecnovar, but won't say if it knew how the powder would be used. It says it hasn't sold to Tecnovar since 1993 and has no plans to do so.

GE's Lexan powder might never have ended up in Rwanda if the company had a strong anti-land-mine policy like the one Motorola adopted last summer. After one of Motorola's transistors was discovered in a land mine in Cambodia, the company issued new guidelines to ensure that no employee knowingly sells components for use in antipersonnel mines. That meant profiling Motorola clients to pinpoint buyers most likely to use the products for land mines.

The HRW study esti-



CAMBODIA: U.S. companies that won't help to keep parts from being used in mines could face a boycott

mates that more than 4 million mines were produced with U.S. components from 1985 to 1996. Now, a chorus of voices is rising to ban the weapons altogether. Since 1991, the International Red Cross has advocated outlawing mines. Last May, President Clinton pledged to work for a global ban. But critics say the Administration is wasting its time trying to win consensus in the U.N. Better, they say, that the U.S. join with more than 50 nations in Ottawa this December to sign a treaty banning the sale and use of mines. "Push the Ottawa process, and 90% of countries will sign on," says Senator Patrick J. Leahy (D-Vt.), author of a 1992 law that bans the export of mines and their components. "That will be an inexorable force on the remaining 10%."

In the meantime, Human Rights Watch and other critics will continue to press their case against U.S. companies that contribute to mines, knowingly or not. "Land mines are a human abomination," says Kenneth C. Phillips, Motorola's director of communications. The activists want to create a PR mine-field for companies that don't agree.

By Christina Del Valle in Washington, with Monica Larner in Rome and bureau reports



DEADLY DEVICE

More than 4 million land mines made from 1985 to 1996 may have contained U.S. parts such as transistors

MARKETING

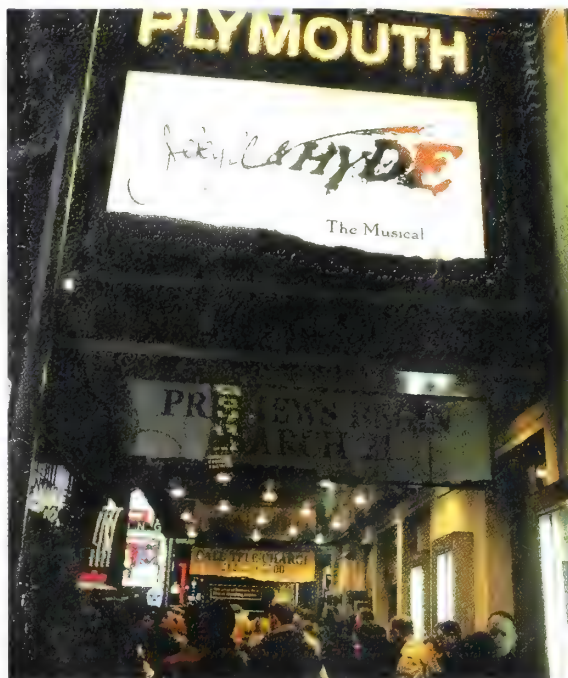
GIVE MY REGARDS TO BIG BUSINESS

Broadway is finding angels in Corporate America

Spring is always a time of hope on Broadway, but expectations this year are running exceptionally high. Fifteen new shows are opening, boosting the number of "lit houses" to 34—the highest number in a decade. For the 1996-97 theatrical season, which ends on June 1, the League of American Theaters & Producers projects attendance at 10 million and revenues of about \$490 million—a 12% rise over the preceding year, which was the strongest in 15 years.

The big box office has caught the eye of a new audience: Corporate America. Historically, consumer marketing companies took little interest in Broadway, beyond making the occasional charitable grant. But having saturated every other form of popular entertainment with their marketing dollars, more and more corporations now are looking to Broadway to buff their images and promote their brands.

ARTISTIC LOSS? On April 15, Continental Airlines Inc. became the latest company to hit the Great White Way, announcing a multimillion-dollar, five-year marketing alliance with the League of American Theaters, the trade association of the "legitimate" theater. Continental bought the right to join in all the promotional programs organized by the League and to promote itself as "The Official Airline of Broadway." Continental is in good company: Ford Motor, Walt Disney, and American Express are



SPOTLIGHT: Jekyll & Hyde, Barrymore with Christopher Plummer, and Steel Pier are new offerings on the Great White Way



Christopher PLUMMER in BARRYMORE a new play



among the companies buying into the theater district in various ways.

This outbreak of marketing mania along Broadway is raising concerns among theater traditionalists, who fear that increasing corporate involvement will accentuate the trend toward artistically timid productions and clutter Broadway with the kind of commercial tie-ins that are more likely to lure patrons of McDonald's than Sardi's. "If it's just a matter of bringing more cash into theaters or productions, then it's a good thing," says playwright Wendy Wasserstein, whose latest offering, *An American Daughter*, opened in April. "The question is whether Broadway will be hurt artistically. I don't expect that, but it bears watching."

The theater industry is welcoming the pacts, which offer both a new source of revenue and access to more marketing muscle than even the best-connected Broadway impresarios can bring to bear. "We all feel that we have a tremendous amount of unrealized potential in the Broadway brand," says Rocco Landesman, president of Jujacycyn Theaters, which owns five

Broadway Inc.

Some of the marketing deals that Broadway theaters have made with corporate sponsors

CONTINENTAL AIRLINES

Under a five-year agreement with the League of American Theaters & Producers, it becomes "The Official Airline of Broadway."

FORD MOTOR

Livent's new theater on 42nd Street will bear Ford's logo and name—the Ford Center for the Performing Arts. Ford is negotiating with Livent for naming rights at its other U.S. theaters.

WALT DISNEY

After backing a production of *Beauty and the Beast*, it invested \$34 million to buy and refurbish the historic New Amsterdam Theater, which reopened on Apr. 2.

DATA BUSINESS WEEK

Broadway's most celebrated theaters, including the Eugene O'Neill and the Walter Kerr. "We've been way behind the curve in terms of marketing, and this will help us catch up."

League officials had extensive talks with two other major airlines before choosing Continental. The Houston-based carrier has the strongest incentive to cut a deal, since it has invested big bucks in a hub at Newark International Airport—and has been promoting itself as "New York's hometown airline." Gregory Brenneman, Continental's president, foresees a major boost from the Broadway tie-in. "Nothing screams New York more than Broadway," says.

Continental is putting together discount Broadway packages for tourists, but the airline is mainly looking to attract additional business travelers. "It fits perfectly with our effort to switch our focus from the backpack and flip-flop crowd to the coat-and-tie crowd," Brenneman says. According to the League, the typical Broadway patron is a 40-year-old white male professional with an annual income of \$100,000 to \$150,000 a year. More than a third of Broadway audience comes from beyond the greater New York area.

League officials are in discussion with more than a dozen other consumer marketing companies, angling to land one more "cornerstone" sponsor from each of three industries: autos, telecom,

communications, and financial services. Quietly but pointedly, the League has hit the tobacco and beer industries on its wish list. "We want to keep a clean, upscale image Broadway," says Meg Meurer, the League's director of marketing and business development.

Meanwhile, individual producers are quietly cutting their own sponsorship deals. Under a recently announced pact with Livent Inc., the Toronto-based vehicle of producer Garth H. Abinsky, Ford will shell out several million dollars to affix its name and logo to what will be the biggest theater on Broadway when it opens this year—the Ford Center for Performing Arts.

THE TACO BELL. The biggest corporate presence by far on Broadway is Walt Disney Co. The entertainment conglomerate has invested \$34 million to acquire and refurbish a 42nd Street theater of its own, the New Amsterdam, which reopened its doors on Apr. 1. And Disney and American Express are discussing the formation of a marketing partnership around the new theater. Neither company would comment on the talks.

Producers will have to proceed with care if they are to successfully cater to corporate interests without alienating Broadway's traditionally upscale audience or ruining the ambiance of this historic theater district, with its Tudor architecture and classic names. "There are important issues of taste and perception involved," says a spokesman of Jujamcyn, which would consider renaming all five of its New York theaters if it can find the right corporate backer. "We're very actively seeking a partner, but not indiscriminately. We're not going to be renaming the Eugene O'Neill the Old Bell."

Producers also vow they will brook no artistic interference from corporate sponsors. "That's just not going to happen," says James B. Freyberg, whose 12 Broadway productions include *Fool Moon* and *Burn This*. "If they try it, producers will drop them."

Perhaps. But big corporations don't like to dictate cast changes or new dialogue to intimidate. Producers may find themselves shying away from certain playwrights or plays to avoid offending a corporate sponsor. Thus, Broadway's budding romance with Corporate America might well leave the theater industry in the awkward position of being able to afford to take more active risks and yet less inclined than ever to do so.

By Anthony Bianco in New York

MEDICINE

IS IT A DRUG—OR ISN'T IT?

A cholesterol remedy sparks an FDA test case

An enticing new health-care product claims to lower cholesterol levels by 25 to 40 points. Its package lists a naturally occurring substance called lovastatin as an active ingredient—the same chemical as in Merck & Co.'s cholesterol-lowering drug, Mevacor. Even its name, Cholestin, has a druglike ring.

Cholestin, launched with a splashy nationwide advertising campaign late last month by Simi Valley (Calif.) startup Pharmanex, must be a drug, right? Not quite. The reddish-brown capsules contain rice that has been fermented with red yeast, an ancient Chinese remedy. So it's legally classified as a dietary supplement, which

puts it beyond the strict regulatory oversight that the U.S. Food & Drug Administration has over medicines.

The FDA, however, is not about to let Cholestin slip by. On Apr. 7, agency officials told Pharmanex that because the company is making druglike claims for Cholestin's efficacy, the FDA regards the product as an unapproved drug—and thus illegal. The company, however, has requested a U.S. district judge in Utah to set aside what it refers to as "the FDA's wrongful action."

HIGH STAKES. Pharmaceutical industry observers see the controversy as more than just a tiff over red yeast. "This will be the test case of whether supplement makers can get away with selling unapproved medicines," says Bruce Silverglade, legal director of the Center for Science in the Public Interest (CSPI). The \$6 billion supplement industry, not surprisingly, views the issue differently. In 1994, Congress passed

a bill that would allow companies to make unprecedented claims about how dietary supplements affect the "structure and function" of the body. Now, the FDA clampdown on Cholestin "is attacking the basic foundation of the dietary supplement act," fumes Pharmanex counsel Patrick Noonan.

The actual legal question in the Cholestin case is a narrow one. At issue is whether claims to lower cholesterol refer merely to the body's normal "structure and function" or whether they carry an implicit drug-like claim of also warding off heart disease, as many scientists believe. But the larger question is whether companies are blurring the line between supplements and

drugs. The stakes are huge. A new Smith Barney Inc. report predicts the market for cholesterol-reduction drugs alone will top \$4 billion this year and reach \$8 billion by 2001 in the U.S.

BLOCKBUSTER. Pharmanex executives are scrupulously careful not to plug their red-yeast product as a low-cost substitute for major cholesterol drugs such as Merck's Mevacor or Warner Lambert Co.'s Lipitor, which Pfizer Inc. will help market. But by targeting the tens of millions of Americans with moderately elevated cholesterol levels, they figure they have a blockbuster. "We've got a product that actually

works—and that has billion-dollar potential," says Pharmanex President William McGlashan Jr.

The Cholestin flap will most likely end in a compromise in which Pharmanex execs agree to tone down their most aggressive druglike claims. But with billions at stake in the market for diet supplements, this will not be the last battle.

By John Carey in Washington

DIET SUPPLEMENT VS. MEDICINE

THE COMPANY SAYS...

A 1994 law lets supplement makers say how products affect the body's "structure and function." Makers of Cholestin say it claims to lower cholesterol, not ward off disease, so it meets the letter of the law.

THE FDA AND CRITICS SAY...

Cholestin's name suggests it's a drug. And claims of cholesterol reduction imply it helps prevent heart disease, making it a drug masquerading as a supplement.

DATA BUSINESS WEEK

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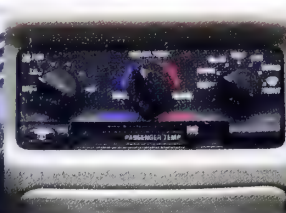
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In Business This Week

EDITED BY KELLEY HOLLAND

TOBACCO TALKS, BUT HOLD THE PEACE PIPE

FINALLY, CIGARETTE MAKERS are meeting with foes to work out a deal on pending suits. The talks between Philip Morris, RJR Nabisco, and several state attorneys general began this month. They are "serious, ongoing, and potentially productive," says Connecticut AG Richard Blumenthal. Still, the two sides remain far apart. The AGs will probably seek at least \$250 billion from tobacco companies, says Massachusetts Attorney General Scott Harshbarger. An obstacle to a deal: the health community. Richard Daynard, chairman of the Tobacco Products Liability Project, says that he won't bless a

settlement unless it calls for cuts of tar and nicotine in cigarettes, as well as strict marketing limits and compensation for smokers.

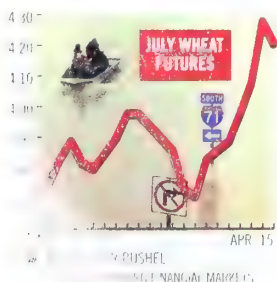
HEALTH CARE, CALPERS STYLE

CALPERS' ACTIVISM IS GOING beyond the portfolio. The California Public Employees' Retirement System, long known for pressing companies in its portfolio to improve performance, has negotiated new health-care deals for its members, including a three-year contract with PacifiCare. Under the deal, CalPERS agrees to pay 2.5% more. In return, PacifiCare is agreeing to meet performance benchmarks: The HMO will assess a 10% penalty on salaries of its top execs if patient satisfaction falls too low. Now that's an incentive.

CLOSING BELL

WHEAT CHECKS

Harsh weather and flooding in the Great Plains sent wheat futures to a six-month high. The July contract hit \$4.28 on Apr. 14, before dropping to \$4.16 on Apr. 16. First, flooding in the Northern Plains delayed spring-wheat planting. Then, a freeze hit winter wheat in Kansas, Oklahoma, and Texas. Since global supplies are tight, additional trouble in U.S. growing areas could further raise prices, says grain analyst Richard Feltes of REFCO: "We could really have a rock 'n' roll market on our hands."



THE FIGHT OVER 'RAMBUS INSIDE'

IS MICROPROCESSOR KINGPIN Intel trying to muscle into memory chips? It recently took a stake in Rambus, which designs fast dynamic random-access memories. Other DRAM makers fret that Intel may design future microprocessors to work only with Rambus-style chips. If so, all other DRAM makers would have to pay license fees to Rambus. Several companies are teaming up to develop alternative fast memory chips. But most of them have also taken out licenses with Rambus.

LESSON FOR A DRUGMAKER

DO COMMERCIAL CONCERNS by drugmakers and scientists stand in the way of science? Nearly one in five researchers say publication of their studies has been held

HEADLINER: ARTHUR MARTINEZ

THE HARDER SIDE OF SEARS

Arthur Martinez has been hailed for engineering Sears' turnaround. Now the CEO is owning up to his first major gaffe, and it's a costly one. On Apr. 10, Sears said earnings would be hit by the cost of repaying money collected illegally from Sears cardholders who had declared bankruptcy. The settlement, which Sears blamed on errors by its legal staff, was pegged by most analysts at around \$50 million. Now, some put the figure as high as \$160 million.

That may be just the start. There could be court-imposed penalties. And there's the expense of set-

ting three class actions already filed and the internal cost of identifying debtors who are due refunds.

More important, the incident could change credit practices that have helped boost profit growth. Sears, for example, is now likely to tone down its collection efforts, which have included threatening to repossess items bought with Sears cards. Bankruptcy experts say bad debt losses, which hit \$1.1 billion in 1996, could rise as a result. That may jeopardize Martinez's prediction of double-digit earnings growth in 1997.

By Susan Chandle



up for more than six months in the last three years to protect scientific leads, allow for patent applications, or even slow the dispersal of undesired results, reports a study in the Apr. 16 *Journal of the American Medical Assn.* JAMA twinned the report with a vivid example: a long-delayed study showing that generics of the popular Synthroid thyroid drug were as effective as the original. Knoll Pharmaceutical, maker of Synthroid and underwriter of the study, would not allow researcher Dr. Betty Dong to publish her findings. In a letter in JAMA, Knoll now says it has a "better understanding" of academic freedom, but insists the study was flawed.

MAC'S TEENIE BEANIE BABY BOOM

IT'S A FEEDING FRENZY—BUT food isn't the star attraction. Just a week after McDonald's

started giving away the wildly popular new stuffed animals, Teenie Beanie Babies, with each "Happy Meal," the chain has begun running out. That is leading some customers to take drastic action. Some parents of Beanie-possessed kids have been speeding from drive-thru to drive-thru in search of supplies. And some are even said to be tossing out the burgers and fries once they have their fuzzy flamingos, lizards and lambs in hand.

ET CETERA...

- Columbia/HCA, trying to prop up its stock, will buy back \$1 billion in shares.
- Craig McCaw and his family will exercise options to buy 15 million Nextel shares.
- Lazard Frères' Felix Rohatyn was nominated to be Ambassador to France.
- Harcourt General is offering \$740 million for National Education.



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Solutions for a small planet



EDITED BY OWEN ULLMANN

CENSUS 2000: YOU CAN COUNT ON THIS FIGHT TO GET UGLY

At first blush, it looks like a debate for statisticians: How should the U.S. Census Bureau improve its count for 2000? But the arcane dispute has turned into a political donnybrook that has Republicans crying foul and business fearing the loss of valuable marketing data.

At issue is a plan to comply with Congress' order to do a better job than in 1990, when the bureau estimates that 1.6% of the population went uncoun- ted. To supplement its traditional door-to-door survey, the bureau wants to statistically estimate the people who are hardest to reach—mainly poor minorities in cities. Based on after-the-fact sampling, it believes 4.4% of blacks were missed last time.

Furious Republicans on Capitol Hill worry that sampling would increase the count of Democratic-leaning constituents, with huge political implications. After all, census population numbers are used to allocate \$100 billion a year in federal housing, transportation, and education grants to states and localities. The figures are also used for congressional apportionment and to draw the lines for congressional and state legislative districts. In some states, even a tiny swing could shift control of a seat from one party to the other.

Instead, some GOP lawmakers want the bureau to improve its response rates and cut costs by using just its "short form"—which asks basic questions about sex, age, and race—and dropping the "long form," which includes queries about education, occupation, housing, and transportation. Five of six households are mailed a short form, and the rest get the long form. But only 61% of households returned the short form in 1990, while 53% returned the long form. At an Apr. 10 hearing, Representative Harold Rogers (R-Ky.) said the best way to encourage citizens to fill out the constitutionally mandated short form without a visit from census takers

would be to send out the onerous long form another time.

That idea isn't playing well with data-hungry companies, which use long-form data to decide where to locate stores and what kinds of products to market. Sending the long form separately, says Joan G. Naymark, director of research and planning at Dayton Hudson Corp., "makes no sense. It will reduce accuracy and increase costs."

The GOP is toying with the idea of withholding money earmarked for sampling. Census Director Marta Farnsworth Riche warns that if sampling is banned, "we will be left with a census that's less accurate than the flawed 1990 result."

BROAD BASE. Major statistical and demographic groups, as well as business and minority groups, support sampling because they think the population is too large and mobile for a physical count. The 2000 census would collect forms by mail or visits from 90% of households in each tract. Then the bureau would interview residents in 1 of every 10 remaining households and estimate the rest based on that sample.

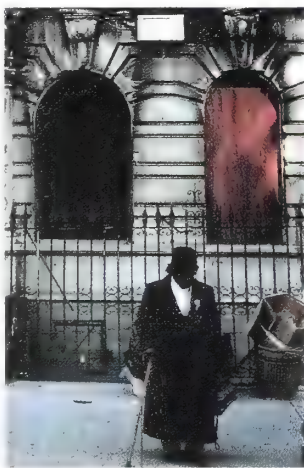
House Republicans argue that sampling is its own flaw, such as high error rates in small areas. They also contend that sampling won't provide the detailed street-by-street data needed to accurately draw House district lines.

Representative Thomas E. Petri (R-Wis.), who is sponsoring a bill to ban sampling, says a

departure from an actual head count would undermine confidence and cut participation. Sampling, he adds, "would increase the flow of funds and representation to large urban areas." He has reason to worry: If the 1990 undercount had been corrected, Wisconsin would have lost a House seat.

Congress isn't likely to drop the long form. But it could hold it hostage to build support for dumping sampling. If that happens, hopes for fixing the census will be down for the count.

By Susan B. Garland



HARLEM: *More funds?*

CAPITAL WRAPUP

RUPERT VS. ORRIN

► Senate Judiciary Committee Chair Orrin G. Hatch (R-Utah) is trying to block Rupert Murdoch's end run around his panel. The media mogul needs to amend copyright rules so his planned satellite-TV service can carry local broadcast signals. To speed passage before opposition builds, Murdoch wants to bypass Judiciary and attach the bill to a coming appropriations bill. Hatch has asked Appropriations Chair Ted Stevens (R-Alaska) to hold it off until Judiciary studies the issue.

BIG RAISE FOR CONTRACTORS

► The Clinton Administration wants to raise the Pentagon's cap on reimbursements to defense contractors for executive salaries. Congress imposed a limit in 1994, saying private investors should bankroll most of top execs' salaries. But the Clintonites say the current \$250,000 cap should rise to conform to the private market. Using median salary figures, the new limit could top \$1 million per exec. The estimated cost to taxpayers: hundreds of millions of dollars.

GOP FALLBACK PLAN

► Senate Republicans, frustrated by White House reluctance to make budget concessions, are drawing up contingency plans in case negotiations on a budget-balancing compromise break down. The most likely scenario: a one-year agreement with moderate and conservative Hill Democrats that keeps the deficit on its downward path. Stung by public revulsion over the 1995-96 government shutdown, Republicans have ruled out another all-or-nothing gamble.



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Solutions for a small planet



RUSSIA

BORIS' YOUNG TURKS

His new reform team is going after sacred-cow monopolies

On Jan. 12, a group of hunters led by Russian Prime Minister Viktor S. Chernomyrdin arrived in a snowy glade 93 miles northeast of Moscow. As local guides jabbed poles into a den of hibernating bears, a mother and her two cubs stumbled out, only to fall in a hail of shots from Chernomyrdin's rifle. The incident prompted outrage among Muscovites, who flooded newspapers and radio talk shows with denunciations of the prime minister's cruelty. But Chernomyrdin didn't seem to understand that he had done anything amiss in slaughtering the sleepy bears.

The 59-year-old technocrat may be turning into a walking symbol of political incorrectness. As former head of Gazprom, the huge gas monopoly, he has long held sway over Russia's biggest companies. Now, he and the generation of Soviet-trained industrial bosses he supports are under attack by President Boris N. Yeltsin's new band of young reformers. Led by longtime Yeltsin aide Anatoly B. Chubais, 41, and up-and-comer Boris Nemtsov, 37, the new team has set its sights on curbing the power of Russia's three sprawling monopolies:



TRUSTBUSTERS Chubais (left) and Nemtsov are even targeting Gazprom, the powerhouse Chernomyrdin once directed

Gazprom, electricity giant Unified Energy System (UES), and the Railways Ministry (table).

The offensive against these behemoths signals that Yeltsin is ready to go forward with a new round of radical economic reforms. Frustrated with the

government's failure to collect taxes, Yeltsin is giving the progressives a green light to crack down on the special interests and corruption that have slowed down the economy and spurred popular protests.

Even more than other huge ente



ises, the monopolies and their manners have benefited from close links the bureaucracy, lush tax breaks, d unfettered control over billions of llars in revenues. Their stranglehold prices has been a major obstacle to e-market capitalism in Russia. Says rk Damrau, head of research at scow-based investment firm Renaissance Capital Corp.: "For the first time nearly half a decade, Russia's reformers are sacrificing... post-communist sacred cows."

SIBLE TARGET. The reformers are en attacking Gazprom, Chernomyrdin's former stomping grounds. d their demands for restructuring e being met, at least in part. On Apr. , Gazprom President Rem Vyakhirev ounced that the monopoly would in off its noncore holdings, which d shrink the company by 100,000 ployees and raise up to \$520 million. e added that Gazprom had taken a ror step toward greater financial disure by hiring Price, Waterhouse LLP, conduct an independent audit. akhirev also promised that Gazprom uld pay off half its tax debt in the xt two months. Nemtsov has said at Gazprom owes \$2.6 billion in taxes, re than enough to pay back wages to the state doctors, teachers, and idergarten workers in Russia.

Gazprom is the reformers' most visie target. But Nemtsov also intends to structure the partially privatized UES, ich controls Russia's electrical power twork. He has put two reform-mind Cabinet officials on its board, orred the company to appoint an indeudent auditor, and banned closed-door ettings to award contracts. And on r. 14, Yeltsin took aim at the third ror monopoly, firing railroad minister atoly Zaitsev.

Yeltsin has apparently given his assing to the reformers forcing such anges. He is pushing Chernomyrdin's onies out of the Cabinet and packing with allies of Chubais. In fact, Yeltsin keeping Chernomyrdin in the government only to avoid a showdown with e opposition-dominated Duma, which s confirmation authority over the post Prime Minister. But Chernomyrdin is coming little more than a figurehead. ys Vyacheslav Nikonov, an analyst Fond Politika, a think tank connect-to the government: "The new reformers have all the power."

Nemtsov is becoming the point man the campaign against Russia's vested erests. The monopolies' managers are gely old-guard apparatchiks who used eir political connections to gain control er huge swathes of Russian industry. Subject to little government or areholder oversight, they had plenty

The Big Three Trusts

GAZPROM

- ▶ One-third of the world's gas reserves: 1,200 trillion cubic feet
- ▶ Russia's biggest hard-currency earner
- ▶ Major stakes in several banks, plus extensive media holdings
- ▶ Still 40% state-owned

UNIFIED ENERGY SYSTEM

- ▶ 110,000 megawatts of generating capacity
- ▶ Controls all wholesale power transmission over Russia's 11 time zones—plus all power exports
- ▶ Still 51% state-owned

RAILWAYS MINISTRY

- ▶ Carries one billion tons of freight annually
- ▶ Accounts for 46% of all passenger traffic within Russia; carries some 2 million passengers a year
- ▶ Rates so high that freight is down one-third since 1992
- ▶ Still 100% state-owned

DATA BUSINESS WEEK

of opportunity to throw contracts to their friends or divert profits for their own use. Nemtsov, as the former governor of the Nizhny Novgorod region, 250 miles east of Moscow, is new to Moscow and untainted by the whiff of corruption that surrounds other politicians, including Chubais.

Some say that if Nemtsov succeeds in his latest onslaught against the status quo, he could become Russia's next President. Polls show that he is already Russia's most trusted politician. His combination of credibility and charisma makes the curly-haired former physician the ideal candidate to combat special-interest politics. The monopolies are just one of his targets. He is also cracking down on big banks that had channeled funds to their favorite politicians, including Yeltsin. And he's leading the battle against corruption by requiring public officials to submit documents listing their worldwide financial holdings.

The drive to restructure the monopolies is not likely to result in their breakup. Rather, the reformers are intent on making them more efficient and transparent. Nemtsov has stated repeatedly that he does not intend to

split up Gazprom. Noting that Russian gas is concentrated in one region, he says that the cost of building competing pipelines makes Gazprom a natural monopoly. "Only a madman would destroy it," he says.

Indeed, Gazprom has been one of the few Russian companies to thrive in a collapsing economy. It is Russia's leading foreign exchange earner, bringing in \$8.4 billion from sales to Europe in 1995. Revenues from exports have virtually subsidized Russian industrial enterprises, which can't or won't pay their bills but that Moscow insists Gazprom keep serving. Says Svetlana Aslanova, an analyst at Moscow-based Sector Capital: "Foreign customers know that Gazprom has a government guarantee. Breaking it up might mean that Russian gas will lose part of its Western markets."

WHAT ARE THEY DOING? Still, Nemtsov believes other gas companies should be allowed to compete with Gazprom in open tenders for the right to develop future fields. Gazprom will be required to transport competitors' gas at the same rate it charges its own production units. The government, which owns a 40% stake in Gazprom, will take an active part in managing the company. And Nemtsov will ensure that Gazprom fully opens its books. Says Nemtsov: "Very frankly, nobody knows what Gazprom actually is."

The reformers' hardball tactics are shaking up other monopolies as well. The day before the Gazprom shakeup was made public, UES management announced a reform program that would cut industrial tariffs by 13% this year and a further 28% in 1998. They also plan to open up the market for wholesale energy.

The next few months will show whether the new reformers have more staying power than Yeltsin's first team, which he sacked in 1992 after the economy went into an inflation spiral. The new group's growing strength has already caused a shift in Russia's political balance, pushing centrists, such as Chernomyrdin and Vyakhirev, into a closer alliance with the weakening Communist left.

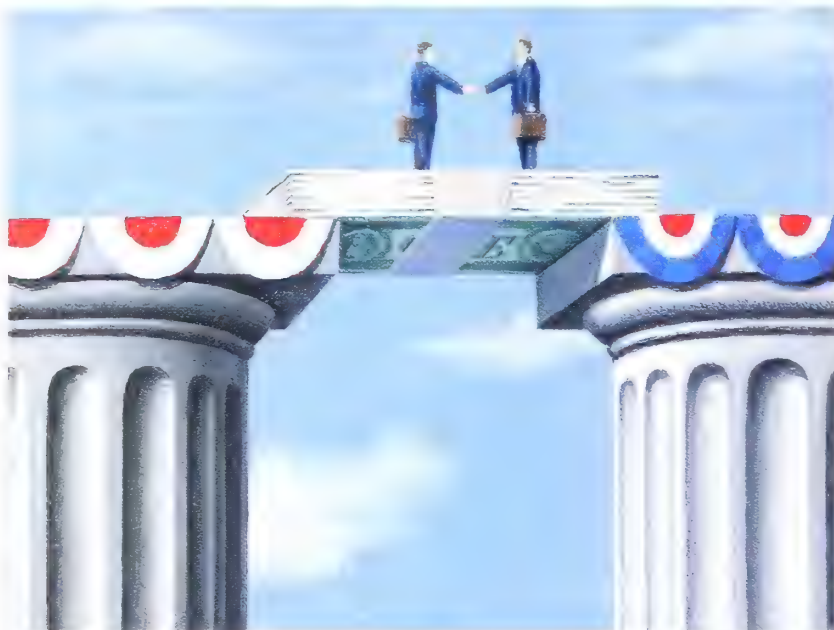
The ascendance of the reformers gives Russia a chance to avert economic meltdown. For the last five years, special interests have bled Russia's crown jewels, siphoning profits into their own pockets. Says Yegor Gaidar, head of Yeltsin's first reform government: "The ruling elite has already realized that it can be very dangerous to just grab money and do nothing else." Perhaps no one realizes it more clearly than the politically embattled Chernomyrdin.

By Patricia Kranz in Moscow

COMMENTARY

By Brian Bremner

ONE DEAL WON'T CLEAN UP JAPAN'S BANKING MESS



Japanese officials say the newly formed bond between Bankers Trust New York Corp. and ailing Nippon Credit Bank Ltd. signals that foreign banks are welcome at last and that the reconstruction of their nation's tottering financial system is off and running. Finance Minister Hiroshi Mitsuzuka praises the arrangement, saying the Bankers-NCB deal, unveiled on Apr. 10, "will greatly contribute to restoring the credibility of Japan's financial system."

That is an overstatement. Sure, the deal will help bail out a \$130 billion lender that has \$10 billion in bad loans. It will also earn tidy fees for Bankers Trust and will possibly give both banks small equity stakes in each other. But it won't open the Japanese banking market to full-dress global competition. Nor will it dramatically speed the job of reforming Japan's brain-dead financial system or awaken its somnolent property market. That's a pity, for there still is much to be done.

NEAT BUNDLES. The Bankers-NCB deal is pretty simple. Like most other Japanese banks that haven't caught up to their Western competitors, NCB doesn't know much about securitization—the bundling of every-

STOPGAP Japan has too many banks already, and keeping weaker lenders afloat imposes big costs on everyone else

thing from auto loans to home mortgages into salable securities. As part of advising NCB on a government-orcheestrated restructuring, Bankers will help NCB sell or securitize some \$40 billion worth of NCB's real estate and other assets to global investors. Bankers will also get a crack at the Japanese bank's international client list as it helps Nippon withdraw from overseas.

The U.S. bank has earned solid credentials, having already helped several troubled French financial institutions securitize shaky loan books. So it's no wonder that Mitsuzuka and Bank of Japan Governor Yasuo Matsushita portray Bankers as the agent of change in their effort to liberalize financial markets.

But while Bankers will help keep NCB above water, officials are sidestepping the question of why the bank should be saved at all. Japan

has too many banks already, and keeping weaker lenders afloat imposes big costs on everyone else. Right now, the Finance Ministry is strong-arming other major Japanese lenders into injecting \$2.4 billion in capital into NCB. This will preserve the status quo—and jobs. But it won't improve competitiveness or innovation. **SWALLOWING PRIDE.** The real value of the Bankers-NCB alliance is that it points to what is needed: aggressive packaging of huge quantities of problem real estate loans into securities that would attract global investors. That would bring Japan's banking crisis to an end by putting a floor under the commercial property and equities markets. But banks and their regulators need to do more to make this happen.

First, more lenders will need to swallow their pride and hook up with stronger foreign partners as advisers or investors. And while Prime Minister Ryutaro Hashimoto is weighing a plan to use taxpayer money to buy some bankrupt properties, he must spell out exactly how much the government will spend and why such a program will restore the banking sector's health.

It also would help if the Finance Ministry lifted curbs on selling asset-backed securities to Japanese life insurers and other institutions. Selling loans this way helped America's Resolution Trust Corp. to recoup 86%, or about \$395 billion, of the loans from busted thrifts.

Of course, the RTC had a big advantage: a more developed market for asset-backed debt. It will take years for Japan to establish one of its own. Yet the faster it moves, the better. The Finance Ministry needs to scrap its ad hoc bank-bailout strategy and face reality. The longer it drags its feet in fixing the banking mess, the more it will cost Japan in the end.

Tokyo Bureau Chief Bremner covers financial issues.



PACK 'EM UP

Clove-oil filled Sampoerna kreteks

smoking age each year," according to a report by HSBC James Capel. There also are no laws in In-

donesia against selling cigarettes to children. "A lot of children smoke here because cigarettes are sold by the stick," says Lelyana Kurniawan, a tobacco industry analyst at Jardine Fleming Nusantara. "If you have 8¢, you can buy a stick." Sampoerna denies his company targets children, saying it's going after bigger spenders.

Antitobacco sentiment is muted at best. "The government has no plan to limit the cigarette industry," says a senior Health Ministry official, chain-smoking through an interview in front of a no-smoking sign in his office. The industry is Indonesia's second-largest employer next to the government, and the second-largest taxpayer after the oil industry.

CONNECTIONS. It's good that the home market remains strong, since it's not clear whether other Asian markets will be as hospitable. Southeast Asia's premium markets are sewn up by powerhouse brands from Philip Morris Cos. and B. A. T. Industries. But Sampoerna, a shrewd, straight-talking, U.S.-educated executive, reckons he can use his connections with other ethnic Chinese traders in Burma, Malaysia, the Philippines, and Vietnam, where he owns cigarette manufacturers and holds distribution licenses through a subsidiary in Singapore. His strongest position may be in neighboring Malaysia, where he figures his legitimate operation can outrun Indonesian *kretek* smugglers, who have 19% of the market. "Being Chinese, we understand the market here better than our Western counterparts," says Sampoerna.

Sampoerna intends to spend the next 10 to 15 years building up his A International and other mild brands in Asia.

Next he will turn to the U.S., where the novelty market for clove cigarettes doubles each year. Says Sampoerna: "In the States, I would be beating my head against the wall" to make a big push. But in Asia, with the market growing fast, he's betting a clove cigarette with a lighter taste may have a shot.

By Michael Shari
in Jakarta

INDONESIA

WILL CLOVES LITE GET THE WORLD ON FIRE?

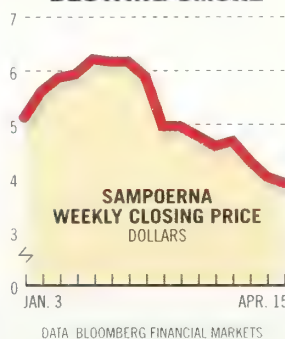
An Indonesian cigarette maker mounts a global push

Sampoerna, 49, is such a big fan of clove cigarettes, or *kreteks*, he started his own children smoking in grammar school. After all, they were invented by his grandfather, an ethnic Chinese tobacco merchant named Seeng Tee, in the Javanese port of Surabaya in 1913. "I let all my kids smoke since the age of 7," he said in a recent interview. "But we're open about it. At the age of 14, if you want to smoke, smoke. Smoke in front of me, don't smoke behind my back." If Sampoerna has his way, consumers around the world will be smoking a new, milder version of his clove cigarettes. His company, Hanjaya Mandala Sampoerna, is launching a milder *kretek* that intends to sell throughout Asia. The *kretek*, a cigarette infused with clove and sweetened with sugar, accounts for 88% of the 168.5 billion cigarettes smoked in Indonesia last year. H. M. Sampoerna has 12% of the *kretek* market, and CEO Sampoerna expects to improve on that share with his new product called A International, which is packaged in a Marlboro-like box to lure younger smokers familiar with American products. He's betting it will catch on in Asia and eventually the U.S., where *kreteks* and other brands are already sold in tobacconist shops. Sampoerna has had a hard time con-

vincing investors that his expansion plans will keep earnings high. In February, investors accustomed to H. M. Sampoerna trading at more than 20 times earnings bid the stock down when 1996 profits rose 12% from 1995, to \$167 million—not bad, but nothing like the 75% annual increases of the early '90s. Investors were also reacting to Sampoerna's purchase of 5% of Indofood Sukses Makmur, a blue-chip outfit controlled by the powerful Salim family. "Everyone suspects he used his company's profits for that [deal]," says an investment banker. The fear is that Sampoerna will diversify unwisely and see profits suffer.

But since the stock's abrupt drop, Jakarta brokerages have turned more bullish. H. M. Sampoerna has wider margins than market leader Gudang Garam, which sells to the low end, and Sampoerna invests more in new products. The Indonesian market also remains a cigarette peddler's dream and an activist's nightmare. One-third of the population is below the age of 15. "This should translate into roughly 4.4 million teenagers entering the

BLOWING SMOKE



FEDERATED EMERGING
MARKETS FUND RANKED
#2 OUT OF 95
EMERGING MARKETS FUNDS
35.46% TOTAL RETURN*

FEDERATED INTERNATIONAL
SMALL COMPANY FUND RANKED
#1 OUT OF 15
INTERNATIONAL
SMALL COMPANY FUNDS
37.06% TOTAL RETURN*

*According to Lipper Analytical Services
for the period 2/29/96 through 2/28/97.

TtRtnLtS	10.08	10.08
TtRtnLtS	10.08	10.08
Federated A:		
AggrGroA	9.69	9.95
AmLdrA	22.11	22.58
AsiaPacA	9.95	10.01
BondA	9.72	9.79
CapAppA	99.70	102.18
EmMktA	13.37	13.60
EqIncA px	16.04	16.35
EurGrA	11.88	11.98
GrStratA	25.65	26.44
HilncBdA	11.64	11.67
IntlEqA n	16.90	17.05
IntlHiA	10.10	10.19
IntlIncA t	11.04	11.17
IntSmCoA	13.61	13.86
LtTrmA p	9.85	9.89
LtdMunA p	9.74	9.75
LatAmA	13.37	13.81
MI Int	10.83	10.88
MunSecA	10.49	10.54
PAMunA px	11.53	11.59
SCapStA	15.34	15.75
StrIncA	10.44	10.51
USGvSecA x	7.77	7.86
UtilFdA x	13.27	13.42
WldUtilA	12.81	13.00
Federated B:		
AggrGroB	9.69	9.94
AmLdrB t	22.08	22.55
AsiaPacB	9.88	9.93
Bond B x	9.72	9.79

FEDERATED LATIN AMERICAN
GROWTH FUND RANKED
#6 OUT OF 30
LATIN AMERICAN FUNDS
42.97% TOTAL RETURN*

FEDERATED WORLD
UTILITY FUND RANKED
#2 OUT OF 90
INTERNATIONAL UTILITY FUNDS
20.27% TOTAL RETURN*

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Mutual funds for domestic equity, international, bond and money market investing.



11.20% was the 1-year total return for the World Utility Fund as of 12/31/96. **17.49%, 8.98%, 13.13%** and **10.74%** were the total returns since inception (2/2/96) for the International Small Company, Emerging Markets, and Latin American funds and the annualized total return for the World Utility Fund since inception (4/2/94) as of 12/31/96, reflecting the 5.5% sales charge. Performance figures at top of page do not include sales charge. Newspaper listing shows current NAV and previous week's NAV. Past performance does not guarantee a similar outcome. Investment return and principal value will fluctuate, so when shares are redeemed, they may be worth more or less than the original price. • Performance shown for the Class A shares. Total returns would have been lower in the absence of temporary expense waivers or reimbursements. The fund also offers other classes of shares. Performance may vary due to differences in charges and expenses. • Foreign investing involves special risks due to factors such as increased volatility, currency fluctuation, differences in auditing and other financial standards. • **Past performance does not guarantee future results.**

EDITED BY JOHN TEMPLEMAN

MEXICO'S UNIONS ARE SLIPPING THEIR LEASH

For 61 years, union boss Fidel Velázquez Sánchez, 97, has run the giant Mexican Workers Confederation (CTM) like an arm of the long-ruling Institutional Revolutionary Party (PRI). Under Don Fidel, as he's widely known, the union spent far more effort supporting the PRI and government policies than in defending workers. But now, his failing health and the expected power struggle among would-be successors could radically change the power structure that has dominated the country for decades.

Mexican policymakers, accustomed to labor calm, face the prospect of more aggressive union demands and labor unrest. A foretaste: work stoppages that started on Apr. 14 at three Ford Motor Co. plants over a demand for profit-sharing payments, although Ford reported that it lost money in Mexico last year. Independent unions are eager to recoup real wage losses totaling about 40% since 1988 by ending Mexico's annual wage-price stabilization pacts, which have kept wage hikes below inflation. And they want to change PRI-voted labor laws that keep workers on a leash by giving government boards wide powers to certify elections of union representatives and permit or restrict strikes. "We're entering a period in which the rules of union activity will be rewritten," says labor analyst Enrique de la Garza of the Autonomous Metropolitan University in Mexico City. "The unions will be much more militant."

GREATER VOICE. The challenge to the CTM, which represents about 45% of Mexico's roughly 8 million organized workers, is gathering force. Two years ago, independent unions claiming 1 to 3 million members created the Forum of Unionism Facing the Nation. They aim to replace the CTM-dominated Workers' Congress (CT), an umbrella organization that since 1967 has grouped all of the country's labor federations, both independents and CTM affiliates. Their goal: To gain a bigger

voice in the pacts, which the CTM has signed with business for the last decade, and win better terms—or abolish them.

The CTM's woes could rebound on the PRI, already battered by drug and corruption scandals. The two groups have been so mutually supportive for decades that a blow to one inevitably hits the other. The union could be further undermined if the PRI, which funnels patronage through it, suffers expected setbacks in July 6 congressional and state elections. Traditionally, the CTM based workers to the polls, often

buying their votes and supplying pre-marked ballots. The PRI has rewarded CTM leaders with key political posts, lucrative business deals, and a policymaking voice. But such quid pro quos are crimped by election reforms and by former President Carlos Salinas de Gortari's sell-off of more than 1,000 state companies, which shrank opportunities for patronage.

So a rising generation of labor leaders sees less sense in the cozy old arrangements. One Forum leader, Francisco Hernández Juárez, heads the independent, 50,000-member Mexican Telephone Workers. A lifelong PRI member, he says workers are fed up with unions that dictate decisions without consulting members.

Most Mexican employers, including many global companies, are happy with docile unions. There were only 51 strikes in 1996, partly because a recession made workers fearful of lay-

offs. But the Forum's emergence means acceptance of the status quo can no longer be taken for granted.

The CTM could still play a key role in the July elections. José Ramírez Gamero, a front-runner for the CTM succession, plans to use up to 10,000 union faithful to get out votes for the PRI. Even so, Don Fidel's era of unions run by a club of politicians and labor bosses is near its end.

By Geri Smith in Mexico City, with John Pearson in New York



VELAZQUEZ: End of an era

GLOBAL WRAPUP

AN ITALIAN SUPERBANK?

► Shares of Milan's powerful and secretive Mediobanca merchant bank rose more than 2% on Apr. 14 on reports that it might merge with Banca Commerciale Italiana, one of Italy's strongest commercial banks. The move would create Italy's first German-style universal bank with stakes in major Italian companies from auto maker Fiat to tire producer Pirelli as well as Assicurazioni Generali, one of Europe's largest insurers.

The superbank, with assets of \$108

billion, could bolster Italy's weak banking sector, which is under attack by increasingly aggressive competitors from northern Europe, Britain, and the U.S. Analysts say copycat mergers could follow quickly. Istituto Mobiliare Italiano, for instance, might merge with Istituto Bancario San Paolo di Torino.

PRIVATE JAILS IN SOUTH AFRICA

► Beset by a crime wave, overcrowded penitentiaries, and frequent jailbreaks, South Africa is looking to private enterprise for help. The

government is seeking tenders, beginning on Apr. 21, from local and foreign companies to build and run seven prisons, including two maximum security units.

Correctional Services Minister Sipo Mzimela says the plan is modeled on experiences in countries including Britain and the U.S. Without an infusion of private cash, he says, the country never could afford the prisons it needs. Meantime, his department is considering other ways to cut 50% overcrowding. One idea: Adapting disused mines to provide extra cells.

Why he can look forward would have a century ago

Today, no one thinks twice about somebody living to the ripe old age of 80. A hundred years ago, however, it was a rarity.

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for over a century.*

But the biggest strides came near the turn of the century when huge advancements in medicine gave doctors the ability to treat and even cure many life-threatening diseases. Hoechst (pronounced Herkst) was there, joining forces with leading scientific researchers like Robert Koch, Emil von Behring and Paul Ehrlich. The discoveries of these Nobel Prize-winning scientists initiated the age of bacteriology, immunology and chemotherapy.

Hoechst pioneered the development of tuberculin, insulin, and antitoxins for diphtheria and



*At the turn of the
century the average
life expectancy was
40 years. In U.S.
today, women live to
be around 79 and
men around 73.*

R. 2001 USA BusinessWeek

living twice as long as he



tetanus, as well as antibiotics to fight infectious diseases. Not to mention important medications that have contributed to the successful treatment of heart disease and strokes.

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36

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(includes security deposit)

or low
2.8%

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*Length of contract is limited. Other finance rates available as length of contract increases. Dealer financial participation may affect consumer cost. You must take retail delivery from dealer stock March 12, 1997 through June 30, 1997. See your participating dealer for qualification details.

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Special Report

ENTERPRISE

Timely Insights for Small Business

In Box page 2

Collected Works Software discounts, gay partner benefits, new postage meters, and more

Economics page 4

Storm Clouds It looks as if tougher times lie ahead. The key to surviving a downturn is making plans now to reduce debt and cut fixed costs

Companies page 8

Truly Virtual The way it freezes fish is one up-to-date thing about Trufresh. Another is its structure—a really virtual corporation

Marketing page 12

Net Escape? Children's software maker Headbone looks to the Internet for salvation

Finance page 18

The Debt Trap Credit cards can save a small business—or sink it



Technology page 22

Millennial Malady A deadly computer bug is lurking. Zap it in your gear, and check up on your suppliers'

Management page 26

Big Deal When a small company lands a big contract, the problem becomes surviving success

At Your Service page 32

Next to New A pre-owned computer can often get the job done just fine

My Company page 36

Pulling Together How to enlist the troops to create a homegrown network

Downtime page 38

Tax Advantage Just because it's a tax deduction doesn't mean it can't be fun



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IN BOX

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BY
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BIG BREAKS FOR SMALL FRY



for small-business customers they've begun offering multiple licensing deals and bulk-purchase discounts of up to 35%, even for low-volume purchasers. A multiple or "open" license means one disk can legally be downloaded onto many machines. Since last October, just 10 copies of Microsoft Office qualify for an "open license program," or bulk discount, down

from 25. Corel Corp. allows you to pay for five licenses and install the program on 10 computers, provided only five people use the software at any one time. You can also save on software upgrades by starting a bidding war between the Goliaths. Just like the phone companies, Lotus Development Corp. will discount its Smartsuite to lure you away from Microsoft Corp., which in turn will offer a competing discount on your upgrade to keep you. Buying through a reseller such as Egghead Inc. can shave off a few more dollars. Another good reason to think in terms of resellers: They can put together a multibrand package and keep track of your licenses—helpful if you're ever accused of illegal copying.

More information about this story can be found on America Online at keyword: BW Enterprise.

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BOOK REVIEW

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19%



FEB. '96

PERCENT OF SMALL BUS
LAST YEAR: 1.049

SO THEY SAY

"Location, location, location? When it comes to small business, it's plan, plan, plan." — Laurence Charney of Ernst & Young, on surviving a downturn (page 4)

Hate lining up at the post office? Postage meters are now cheap enough for even the smallest business. Exact postage can save up to 20% in

mailing costs, and the new electronic meters can break out use by client or department. Postage refills are available via modem. Pitney Bowes Inc. just set a

new low in rental for a SOHO machine. They are rivals. Terms and features vary. Watch for costs such as postage and postage refill

HEALTHY QUESTIONS?

1. Have you ever filed a workers' compensation claim? ☐
2. Do you have any physical problems or injuries? ☐
3. How many days were you sick last year? ☐
4. Are you currently taking any medications? ☐
5. Have you ever been treated for drug abuse? ☐

FAMILY AFFAIR

The next decade will see a shift in leadership at family businesses. Of more than 3,000 family biz CEOs and top executives answering an Arthur Andersen Mutual survey, 42% predict a new CEO in the next five years. Since the average tenure for such CEOs is 24 years, six times the rate at nonfamily companies, that's impressive turnover. The poll also suggests more new CEOs will share power as CEOs and more women will move to the top. They'll inherit the balance sheets: 68% of family-owned companies report little or no debt.

WITHIN 30 DAYS OF CLOSING ON SELLING

THEIR BUSINESS, 36% OF ENTREPRENEURS WHO WANT JOBS HAVE THEM

THE NET KEEPS SNAGGING 'EM

45%



JAN. '97

TO THE INTERNET
MAY INTERNATIONAL CO.

Small business has leapt onto the Internet in the past year. More than 40% of all businesses now say the Net has changed the way they operate.

The most popular uses are research,

E-mail, and advertising and promotion, according to consultant George S. May International Co.'s second survey on use of the

Internet by small businesses. Fewer business owners this year offer excuses for staying unplugged, leaving a hard core who simply see "no need" for the Net in their business.



WHO TO TRUST?

If you want information from a chamber of commerce, better find out who you're dealing with first. Last year, complaints about huge fees and unfilled orders for research led to a probe of the Chamber of Commerce Serving Greater New York. Refunds ended the matter. The problem: "chamber of commerce" can't be trademarked, so some for-profit businesses, such as the Adult Chamber of Commerce, which serves the sex industry, use it. In Nashville and Washington, too, groups are at odds over the name.



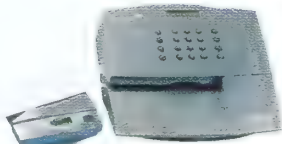
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THE CHANGING OF THE GUARD

The CEOs who head family businesses today predict the next generation will look very different.



INCOMING

OUTGOING

42% - Co-CEOs - 11%

25% - Women CEOs - 5%

13% - Nonfamily CEOs - 12%

As many as 16% say the CEO will "never retire."



Source: Arthur Andersen/MassMutual American Family Business Survey '97

INSURANCE FOR JACK AND BILL

The trend of extending medical benefits to partners of gay employees is gaining steam, but few insurers offer policies. That puts small business at a disadvantage in a tight labor market, since big companies, which either self-insure or have greater clout in negotiating their coverage, can use the benefits to compete for gay talent. Legal pressure could grow, too. Starting June 1, San Francisco will require city contractors to extend coverage to all registered domestic partners of employees. New York City is considering similar legislation. For help finding an insurer, call gay rights group Lambda Legal Defense & Education Fund (212 809-8585) or benefits consultant, Hollywood Supports (213 655-7705).



More information about this story can be found on America Online at keyword: BW Enterprise.

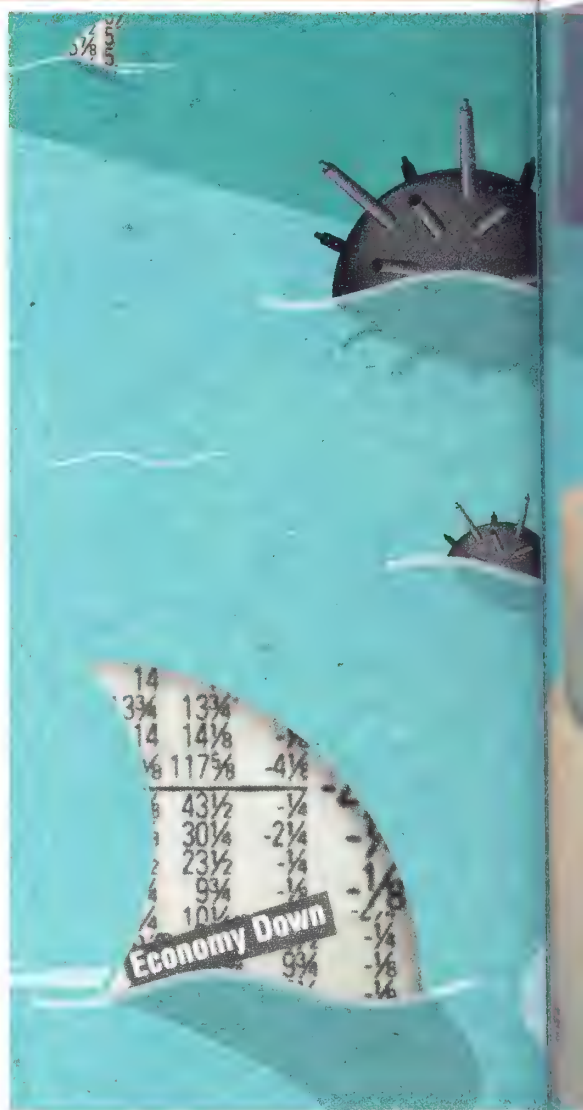
S A WELLS FARGO/NFIB STUDY.

An up-to-date plan covering bad times is essential

Federation of Independent Business. And a recent Coopers & Lybrand survey shows chief executives from three-quarters of the nation's fastest-growing companies are optimistic about the economy over the next 12 months. In sharp contrast, a mere 3% of those surveyed were pessimistic about the economy's prospects. **"PLAN, PLAN, PLAN."** Still, whether you think the expansion has legs or a downturn looms, it pays to prepare for adversity. The secret for surviving and even prospering during a downturn is to focus relentlessly on the most basic notions of running a business—cash flow, accounts receivable, costs, and debt. Says Laurence Charney, group leader for entrepreneurial services at Ernst & Young, "You've heard real estate people talk about location, location, location?

The most critical item to track for any owner is cash flow. In part, that means keeping a close eye on accounts receivables. Check out your customers. Are they healthy or financially fragile? Are they up-to-date on their payments? Are you making money off your contracts or straining to service too many customers? Eugene W. Courtney, CEO of HEI Inc., a Minnesota-based company specializing in making custom-designed, ultra-miniature micro-electronic devices, warns that "lots of people bleed to

Too, the bane of many businesses today. "Quite frankly, when times are good, you really aren't scrutinizing the phone



ENT 4 BUSINESS WEEK ENTERPRISE / APRIL 28, 1997



Getting Ready for Tough Times

► DEVISE A BUSINESS

PLAN A detailed business plan allows a small-business owner to identify trouble spots early and to decide how best to conserve resources if sales turn down.

► MONITOR FINANCES

Carefully review accounts receivable for slippage. Institute disciplined procedures for collecting and monitoring any money the business may be owed.

► REVIEW YOUR

CUSTOMERS Make sure that your customer base is well-diversified. Where it makes sense to do so, lock in long-term contracts with valued customers.

► REDUCE DEBT

Reduce debt and build up cash reserves. Check that all lines of credit are secure if they are needed.

► SCRUTINIZE OPERATIONS

Streamline nonessential expenses. Review and pare down inventory levels.

► CONTROL CAPITAL

OUTLAYS Avoid excessive investments that have no clear payoff. Know the true costs of new software packages.

► CUT FIXED COSTS

Reward employees with profit-sharing and bonuses in good years rather than giving out big pay raises. Outsource where appropriate.

DATA BUSINESS WEEK

you want to do, but it makes you stronger."

When a downturn arrives, it's also important not to be caught owing a lot of money, say many small business advisers and longtime entrepreneurs. Bolster equity capital, pay down debt, secure lines of credit, and convert any remaining borrowings into fixed-rate loans to make financial planning easier.

Financial leverage can be toxic. What's more, bankers tend to be exuberant lenders during expansions. A recent study of more than two million commercial and industrial loans granted by 580 banks between 1977 and 1993, undertaken by Patrick K. Asea, economist at the University of California, Los Angeles, and S. Brock Blomberg, economist at Wellesley College, suggests that banks extend way too many loans when times are good. That optimism gets overextended borrowers into trouble during recessions. Over the past three years alone, bank commercial and

industrial loans outstanding have been growing at double-digit rates.

In addition, the quality of those loans in a recession may be worrisome, too. Banks have increasingly been relying on "credit scoring"—computer-generated, numerical quantification of a borrower's risk—as one of the main criteria for making their small business loans. In the Federal Reserve's recent Senior Loan Officer Opinion Survey, about two-fifths of respondents said they always use credit scores when making small business loans, and one-fourth said they sometimes use them. The trouble is, credit-scoring for businesses is relatively new, and suspicions are widespread that loan difficulties will emerge when economic activity slows. What's more, a lot of credit card issuers are worried about how much personal credit card debt is being used to fund small business, says Mark Zandi, chief economist at Regional Financial Associates Inc.

Reducing debt doesn't mean shying away from banks entirely. Indeed, a secure credit line can be a lifesaver if the business turns down. "It makes

and looking for other ways you can save pennies," says Scott Daugherty, executive director of the Small Business & Technology Development Center at the University of North Carolina at Chapel Hill. "We don't go on a diet until the suit doesn't fit."

TRIMMING DUCKS. Ambitious capital spending plans are an easy target for cutbacks. Some investments, like new telephone gear, may cut costs and increase business. But other expenditures, such as the next tweak on a piece of software or the latest model of office or factory machinery, can be delayed without hurting the business. Bay Cast funds capital spending out of profits, says Leman. "It takes you longer to do what

pieces of unprofitable business," says one CEO

Economics

sense to lock up lines of credit when times are good and to build up good relations with lenders," says Frederic W. Thomas, president of SCORE, Service Corps of Retired Executives, a 12,400-member volunteer program that matches volunteers with small businesses that need advice. "The flip side of this is to keep them up-to-date on what you are doing. Bankers don't like nasty surprises."

GREENHORNS. Building up cash on hand is essential, even if it means taking less money out for personal expenses. A lack of capital was the single most important cause of business failures in the Minneapolis/St. Paul area in the mid-1980s, according to Karl A. Egge, an economist at Macalester College in St. Paul. Similarly, the mixing of household and business monies contributed to the failure of a good number of the Arizona micro-enterprises along the Mexican border when the peso collapsed in 1994. As sales slowed, many freshly-minted entrepreneurs dipped into the business cash flow to pay for the mortgage, the car, or other household expenditures. They didn't plow money back into the business, says Frank T. Ballesteros, deputy chief executive at the PPEP Microbusiness and Housing Development Corp., a nonprofit lender to tiny firms in rural Arizona. Egge suggests as a good target having enough cash to cover fixed costs for 2-3 months, though that

abruptly dried up, banks called in their loans, and lots of businesses went belly-up. But Ratcliffe Inc., a bookstore, office supply, and sporting goods retailer based in Weatherford, emerged unscathed. Indeed, the family business expanded during the downturn, snapping up bargains as other companies went out of business. "Our sales now are greater than they were during the oil boom," says Richard Ratcliffe, head of the

out during the good times may be enough to pull a company out of slump.

To many small business owners, spending precious time on keeping business plan up-to-date may seem like a luxury. After all, they are building

RETAILER RATCLIFFE

Bargain hunter of the early '80s oil bust



70-year old company founded by his father who is currently working on reducing outstanding debts and building up a strong cash position.

Of course, another option is to structure your business so a recession will inflict less pain. Savvy businesses are always looking for ways to turn fixed costs—that have to be paid no matter what—into 'variable' costs that can be more easily trimmed in a sinking economy. For example, even in today's age of downsizing, it's unpleasant and difficult to fire a permanent employee. That's why an increasingly common technique is to supplement a core labor force with temporary workers. Bay Cast, blessed with full order books, relies on temporary hires for about a fifth

of its 110-person workforce. Similarly, judicious use of outsourcing may provide a good cushion against slow times. Dean A. Sundquist, CEO of Mate Precision Tooling of Ramsey, Minn., notes that if sales drop by 10% to 15%, cutting back on overtime and bringing in-house some projects you had farmed

business, pursuing dream, and jostling competitors for market share. Big mistake: especially if they are running so fast as to miss what's happening around them. One way to stay in close touch with market conditions is to aggressively build up an intelligent network. Talk to valued employees. Schmooze with important customers. Create your own kitchen cabinet of independent advisers—which should include your banker and your accountant, suggests Don Craighead, a retired small business owner. Use their input to project out 12 to 24 months, recommends Coopers & Lybrand's Lafond, and

regularly revise your business plan to reflect changing circumstances.

Of course, a deep recession on the national or state level can severely test even the best, most carefully monitored financial management. If business dries up, "You are at the lifeboat level," says retired CEO Grieves. "You only do the things that keep you alive and jettison the rest." Still, well-managed businesses have higher survival rates, and even new enterprises can make it through a downturn. About half of all one-year-old firms made it from 1990 to 1994, according to the consulting firm Cognetic Inc., despite the recession which ran from July 1990 to March 1991.

Entrepreneurs know that any business has to expect the curve ball, the wicked twist of fate. No one knows when the next recession will come. But with the U.S. economy entering the seventh year of economic expansion, the risks are rising—along with the potential cost of being unprepared. "There will be casualties in this—the people who don't pay attention, who don't do the right things," says Scott Daugherty. "But if you handle it the right way then there is a good chance you will come out stronger."

By Christopher Farrell in St. Paul

SAVVY: Transform fixed charges, such as labor, into costs that vary with the business climate

will vary by the type of business. A strong cash position not only lets you withstand the valleys in your business, but provides the wherewithal to expand during a recession—when assets are cheap and competitors are falling. As the oil bust hit western Oklahoma in the early 1980s, cash flows

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Solutions for a small planet

TRUFRESH: A COMPANY THAT'S TRULY VIRTUAL

A high-tech fish processor keeps costs low with a bare-bones organization

Open up the direct-mail promotional piece from Trufresh Marketing Group, and you will find a rather, well, distasteful item. A scratch-and-sniff card—for fish. Then pick up the cover panel and take a whiff. Nothing. Because, as the copy inside points out, “fresh” fish should not smell fishy.

The mailer for the company’s “fresh-frozen” farm-raised Atlantic salmon is not the only innovative thing about Trufresh. Involved in everything from harvesting the fish to distributing it, the company is using a patented freezing technology from Japan to flash-freeze salmon in Maine. Experts say the freezing process is so effective that Trufresh salmon is indistinguishable from fresh.

SPARTAN. In the nine years since its founding, Trufresh has flopped in retail but is finally making major inroads into the institutional food market. Last year, sales topped \$1 million. And thanks to a new deal with Sysco Corp., the nation’s largest food distribution company, sales are projected to surpass \$5 million in 1997, enabling the company to turn a profit.

The key to Trufresh’s success is a leanness unique in its industry. It’s a virtual company—no headquarters, a bare-bones sales staff, and no plans to add bricks and mortar. Distribution and

MANAGEMENT

warehousing, as well as direct sales, are all outsourced. “We built this business as a virtual business out of necessity,” remarks Kevin Vandervoort, CEO of Trufresh Marketing. But now he’s sold on the concept. “We’re

the operation would be at least 10 times more expensive if Trufresh maintained its own distribution infrastructure, not to mention a roster of employees. “The value of the company is the patent, the technology, the trademark, and the marketing,” he says. Trucking and distribution are “just not our business.”

The company’s structure also maximizes its value to investors, says majority owner Barnet L. Liberman. Moreover, by keeping the licensing, sales and marketing, and production arms separate, Trufresh has a built-in exit

strategy: It could sell the sales and distribution arm unencumbered by potentially costly hard assets, while continuing to license the company’s freezing technology.

Trufresh’s “office” is far-flung.

Real estate executives Winthrop Davies Chamberlin, 55, and Liberman, 50, the majority owners of Trufresh, keep a handle on finances from their Manhattan office.

Robert J. Peacock II, 48, a retired ocean tanker captain, oversees production in a 4,800-square-foot rented space carved out of the weather-beaten sardine canning plant his great-grandfather built in Lubec, Me., in the early 1900s. James C. Gallagher, 44, the company’s national sales manager, works at home in Pittsburgh overseeing five freelance sales reps. The only Trufresh office with overhead is Vandervoort’s—one room in Windsor Locks, Conn., furnished

ALL OVER THE MAP



not looking to have a traditional corporate structure. It just isn't necessary.”

In fact, staying virtual may be what's necessary because it has enabled the company to focus on technology and sales, without diverting resources. Vandervoort estimates, for instance, that

h a computer, a fax machine, a telephone, a filing cabinet, and a couple of on-hand desks. The son, grandson, great-grandson of commercial fishermen, Vandervoort shares his office with his marketing team—sons David, 18, an 18-year-old high school senior, and Matthew, 21, a college junior. Together, they came up with the sniff-o'-mon mailer.

VALTIES. The idea for Trufresh was born when Liberman and Davies stumbled on the cryogenic freezing technology in 1986. A heating contractor they knew introduced them to a Brooklyn butcher who bought beef frozen in a process developed by Nissin Armet Beef of Osaka, Japan. In 1988, they negotiated an exclusive 16-year North American license agreement for the technology. While Nissin retains exclusive rights in Japan and 11 other Pacific Rim countries, Trufresh pays a fee and royalties for sublicenses elsewhere. This year, the company partnered with processing plants that process fish in Micronesia and Chile. The company's retail failure turned, finally enough, on freezers. In a 1993 trial run with a Quebec supermarket chain, it found that the rapid defrost cycle of conventional retail units causes ice crystals to form quickly inside the fish, transforming it into a typical frozen specimen.

sale, compared with \$2.60 a pound for fresh salmon, "it works out very well," says Michael Fischetti, executive chef at the Doubletree Hotel in Pittsburgh. And, says Bill Prachyl, seafood product manager at Sysco in Houston: "You can't tell the difference between their salmon and fresh." In fact, in December, when the Culinary Institute of America tested Trufresh salmon against fresh-cut, its expert tasters couldn't tell them apart.

That may be attributed to what goes on at Trufresh's production arm, Maine Freeze. There, farm-raised salmon are "harvested" and then within an hour of being plucked from the pen, cleaned and processed in what Maine Freeze President Peacock calls a "state-of-the-art surgical" packing room. Boned and skinned filets, sealed in airtight plastic, are plunged into a patented cryogenic brine at -40F, and they freeze so quickly that, unlike conventional frozen fish, Trufresh salmon loses very little moisture. (A fresh fish, by contrast, may be out of the water for more than a week before it hits the plate.)

In the last two years, Trufresh has

ing out of 59 distribution offices. Sysco's people receive training from Trufresh's contract sales team, along with direct-mail marketing support. In return, Sysco is the exclusive U.S. distributor for Trufresh.

The partnership gives Trufresh "big fish" status that such a small company could scarcely achieve on its own. Sysco, meanwhile, is looking at a potentially huge market. According to the

Its flash-freeze process is so effective, experts say, that Trufresh salmon is indistinguishable from fresh



Maine Aquaculture Assn. (MAA), Americans ate nearly 109 million pounds of farm-raised Atlantic salmon in 1995, and consumption is growing by about 20% annually.

To date, Trufresh and its parent Winterlab Ltd. have gone through more than \$9 million dollars. Most of it has come from the two real estate executives, though conventional debt financing and a handful of equity investors have also played a part. But the clock is ticking: The Nissin license costs a flat \$1.5 million a year, and Trufresh's goal of capturing 5% of the U.S. market for farm-raised salmon is at least a couple of years off.

Vandervoort and Liberman are relying on the low-cost virtual structure—a strategy endorsed by knowledgeable observers. Thomas M. Compennolle, a food distribution and retailing consultant with Ernst & Young LLP in Chicago, says a lean organization allows companies such as Trufresh to focus their financial and technological resources on winning product acceptance. On the other hand, virtuality also poses the risk of limiting the company's growth, says Compennolle, if Trufresh ever becomes captive to expensive outsourcing partners or needs an in-house sales and marketing team to penetrate retail markets.

"Outsourcing everything that is not part of your core competency is something people have been talking about for years. But I don't know of anybody who has implemented the virtual concept," says Compennolle. "Theoretically it can be done, but it will take a few guinea pigs to see if it can happen." Or a few brave fish swimming upstream.

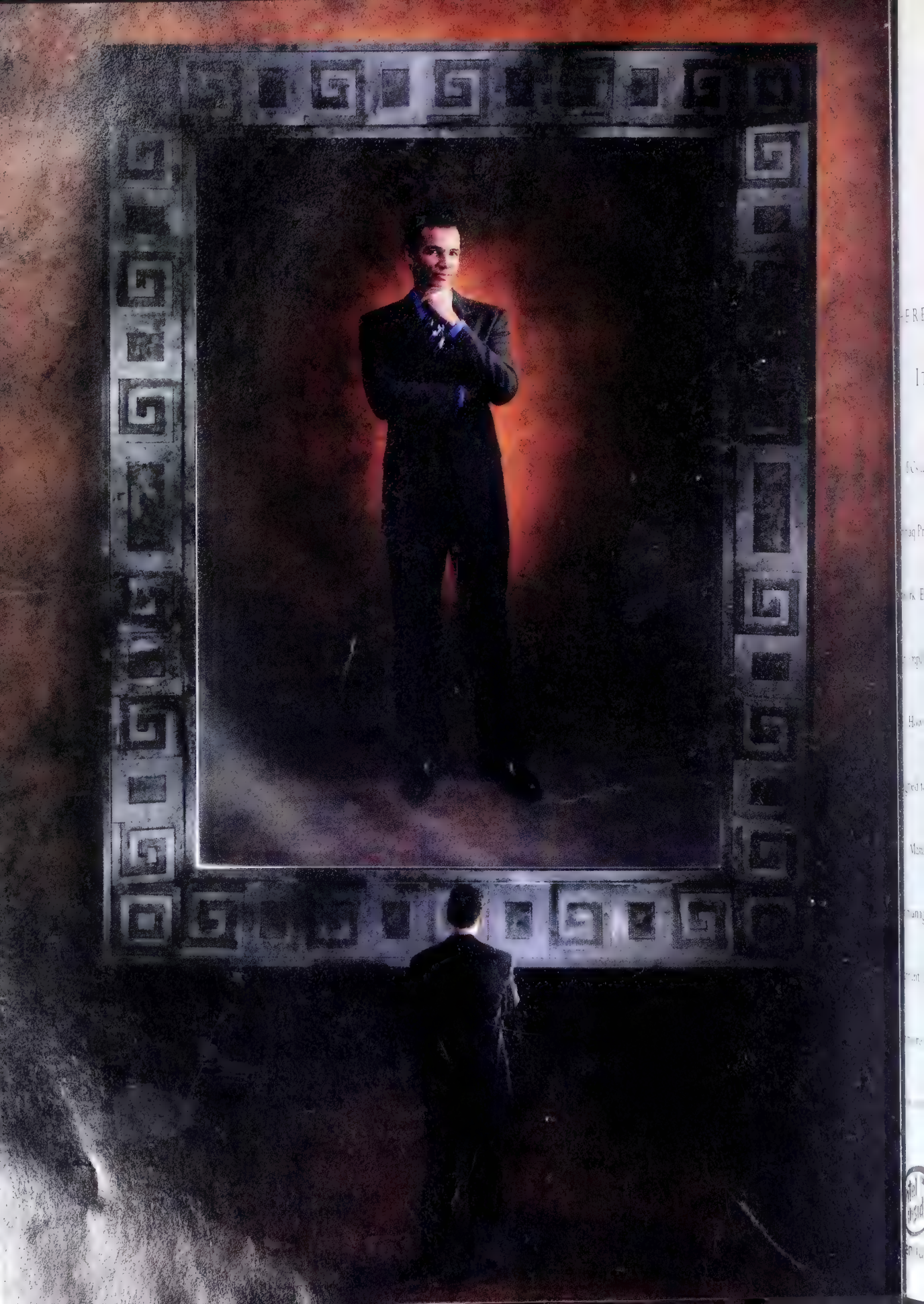
By Gregory Sandler in Northampton, Mass.



FROM MAINE: Besides salmon, Trufresh hooked \$1 million in sales last year

Then, in 1995, the company landed a customer: giant Marriott International Inc. The already cleaned and filleted Trufresh fish appeals to institutional food-service operations as a labor-saving, waste-reducing product that poses less risk of bacterial contamination than fresh fish. Even at \$6 a pound whole-

added impressive customers—first Club Corp., a food-service company managing dining rooms at 236 private clubs. And Vandervoort now is negotiating a deal with a U.S. airline. But the biggest catch yet was a contract made with Sysco in November. Trufresh gained access to Sysco's sales force of 5,000 work-



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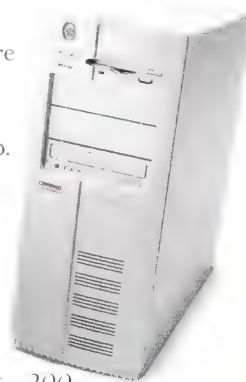
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CAN YOU FIND SAFETY ON THE NET?

Headbone, a maker of kids' software, is betting that a Web site will save its bacon

The tale of Headbone Interactive Inc., a children's software developer, has the makings of a great adventure game. Call it The Startup Quest. The set: a funky old warehouse in Seattle. The cast: a bunch of hip young people led by a mellow female fugitive from corporate life. They create cool kid characters named Elroy, Syd, Iz, and Auggie. Crisp, quirky graphics give the software an edge. Their CD-ROMs win rave reviews and a bevy of awards. But it still isn't enough to survive in a super-saturated market.

For Headbone, this is no game. Since the company was founded by ex-Microsoftie Susan Lammers just three years ago, the market for edutainment CD-ROMs has collapsed under the weight of too many titles. With heavyweights like Walt Disney and Microsoft—plus 600 other edutainment publishers—all vying for precious shelf space, exposure is everything: The top ten CD-ROM titles generate 90% of the revenue. What of poor Headbone? It has less than 1% of the market, according to PC Data, its Parents' Choice and software excellence awards notwithstanding. It's the classic small businesses conundrum: "I knew how to make good products," Lammers admits ruefully. "I just didn't know marketing."

After a disappointing Christmas season, Lammers has decided to all but abandon the retail market, and take her cartoon characters to the Internet and beyond. It's a risky move by the 38-year-old entrepreneur and her husband, Walter Euyang, who seeded and nurtured the company with their own funds



CEO LAMMERS: Already a standout in a crowded market, her growing Seattle business wants to sell its Elroy cartoon series to TV

INTERNET

and are now betting their future on an unproven medium. But at least the Net offers Headbone an affordable way to strut its stuff. "We are leading with our Internet programming as a way to build an audience for our characters," says Lammers. "The Internet is the wedge that will get us into other media like TV."

BARBIE WATCH. Certainly there is less friction getting a product out on the Internet, agrees Patti Stonesifer, former head of Microsoft's Interactive Division and now a digital consultant. But to really succeed, Stonesifer says, a brand or character has to be everywhere—from the computer screen to televi-

sion to the toy shelves just like Disney and Barbie.

For Headbone, the Net is the most affordable place to start. To get people to its Web site, it partnered with content-hungry search engines that receive more than a million hits a day. First Excite featured Headbone prominently on its home page. When that deal ended, Headbone turned to Yahoo!, which catered to kids with Yahoo!igans, a Web page full of games and news links just for kids.

The partnership have paid off. Since its launch in mid-January, more than 10,000 people have registered to play Derby, a serial cartoon game featuring characters Iz and Auggie in galactic adventures. The average Headbone visi-

measures 18 minutes, an eternity in a world where 2 minutes at a site is the average. And it's definitely more attention than Headbone products ever received sitting on a dusty store shelf.

Lammers always believed that if consumers just got a taste of the company's zany style, they would buy Headbone's products. The Internet provides an opportunity to sample. Since the launch of Derby, sales online—where consumers can click and order CDs for \$19.95 at Headbone's Web site—have increased 130%.

Lammers is looking to the Internet for more than just a source of cheap advertising. Headbone's site can showcase the com-



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Marketing

pany's creativity and build a sense of community with online games, jokes, and chats. This community started building two years ago, when, light years ahead of most other kids' software companies, Headbone created a Web page. It followed up with an electronic newsletter, and eventually, an online store for Headbone products.

The next step last spring was a pilot Internet game for kids aged 8 to 14. The response to the pilot was especially positive among teachers clamoring for Internet content they could use in the classroom. So before launching *Derby*, Headbone advertised the game in education journals across the country. Excite's extensive database was mined to send a mass E-mail message to teachers announcing *Derby*'s arrival. As a result of this marketing effort, close to 1,000 schools had classrooms of students playing the game. What students found in *Derby* was a funny narrative featuring Iz, the girl rock musician, and Auggie, her robot friend, who could only escape dire situations when players surfed the Net for answers to such mind-numbing questions as "What is the largest canyon on Mars?"

Schools are not the only new market Headbone unearthed with its Internet venture. With the second episode of *Derby*, Headbone is signing deals with on-line newspapers such as the *Star Tribune* in Minneapolis, Minn. (www.startribune.com). As part of the syndication arrangement, newspapers must promote Headbone online and in print. Eventually, ad revenues will be shared. Headbone is also looking to hook up with other major advertising sponsors for its Internet games and homepage.

MARKET NICHE. While the Internet has not yet proven to be a direct generator of revenue, it's still the place to be for software companies, analysts say. "The CD-ROM market is bleak," says Scott W. McAdams, software analyst at Ragen MacKenzie, an investment firm in Seattle. "You either ride it out until your Internet product is successful or you sell out." But as McAdams cautions, there is not a whole lot of dealmaking going on these days.

This desperate fight for market share is not what Lammers expected when she launched the company in 1993 with money from her Microsoft stock. She and her husband formed Headbone to create a sane working environment while raising their two young sons. The company has always been lean, operating with a minimal staff in a low-rent district of Seattle. But the place has atmosphere. Couches here and there make the loft feel homey. Children

The Sega deal made Lammers realize she needed marketing expertise. So she recruited 34-year-old Mark Bolger, a former Disney manager charged with creating new distribution channels for home videos. Last year, Headbone relaunched three existing titles and released five new ones. The company then undertook



print ad campaign in magazines such as *Family PC* and *Home Computing*. After the Sega contract expired last May, Headbone formed a distribution alliance with Bro-

derbund Software Inc., a leading edutainment publisher with the heft to compete for shelf space. The alliance opened doors with wholesale buyers like CompUSA and Computer City, and Headbone's sales last year rose by 100%.

WHERE'S THE MONEY? But pushing CD-ROMs on the retail level was expensive. So Lammers sought the aid of venture capitalists last spring. In May Headbone scored \$4.2 million from Bay Partners in Cupertino, Calif. and Applied Technology Investors in Lexington, Mass. That timely infusion is keeping Headbone alive. But not surprisingly, the company has become very conservative with its spending. After a disappointing Christmas season Headbone stopped developing

new CD titles and started concentrating on its Internet strategy and the development of TV pilots. But this move also leaves the company with a much-reduced revenue stream.

Lammers admits that pursuing this long-term strategy of building up Internet advertising and developing TV pilots for kids' cartoons will probably require an additional round of financing sometime this summer. Applied Technology Investors and Bay Partners have indicated that they will go the second round. "We invested in Headbone because the characters were so engaging and because Lammers was a strong entrepreneur," says Dempsey.

So the game isn't over for the Seattle startup. In fact, you might say the quest is just beginning.

By Seanna Browder in Seattle

HEADBONE'S MARCH TO MARKET

FIRST STEPS

AlphaBonk Farm is released to rave reviews in 1994, a year after Susan Lammers launches company. Lammers' family spends Christmas shipping the game; it's Headbone's only means of distribution.

AN ALLIANCE WITH SEGA

Distribution deal signed with Sega in March, 1995. Sales don't budge. Lammers realizes video games and software are different businesses.

MARKETING IMPROVES

After disappointing 1995 holiday season, Lammers recruits marketing expertise, including Disney executive Mark Bolger. He promotes software titles

with contests, giveaways, and store displays.

BONDING WITH BRODERBUND

When Sega contract expires in May, 1996, Headbone allies with Broderbund. Edutainment publisher has brawn to get titles onto game shelves at Wal-Mart and CompUSA.

THE LEAP INTO THE NET

Headbone unveils instantly popular Internet game, *Derby*, based on its characters. Targets schools with ads in education journals and mass E-mail to teachers. Second version syndicated with on-line newspapers and featured on Yahoo kids' page.

RESULTS SO FAR

Sales are up by 100%.



run through the open spaces, while Headbone employees toil away.

It would have been the ideal work environment, except that marketing has been a struggle since day one. To get distribution for its products, Headbone first turned to well-known video game manufacturer Sega Enterprises Inc. But the alliance was a mistake. Sega could get Headbone into stores such as Toys 'R Us, but then Headbone products would languish next to glitzy, proven titles like *Mortal Kombat*.

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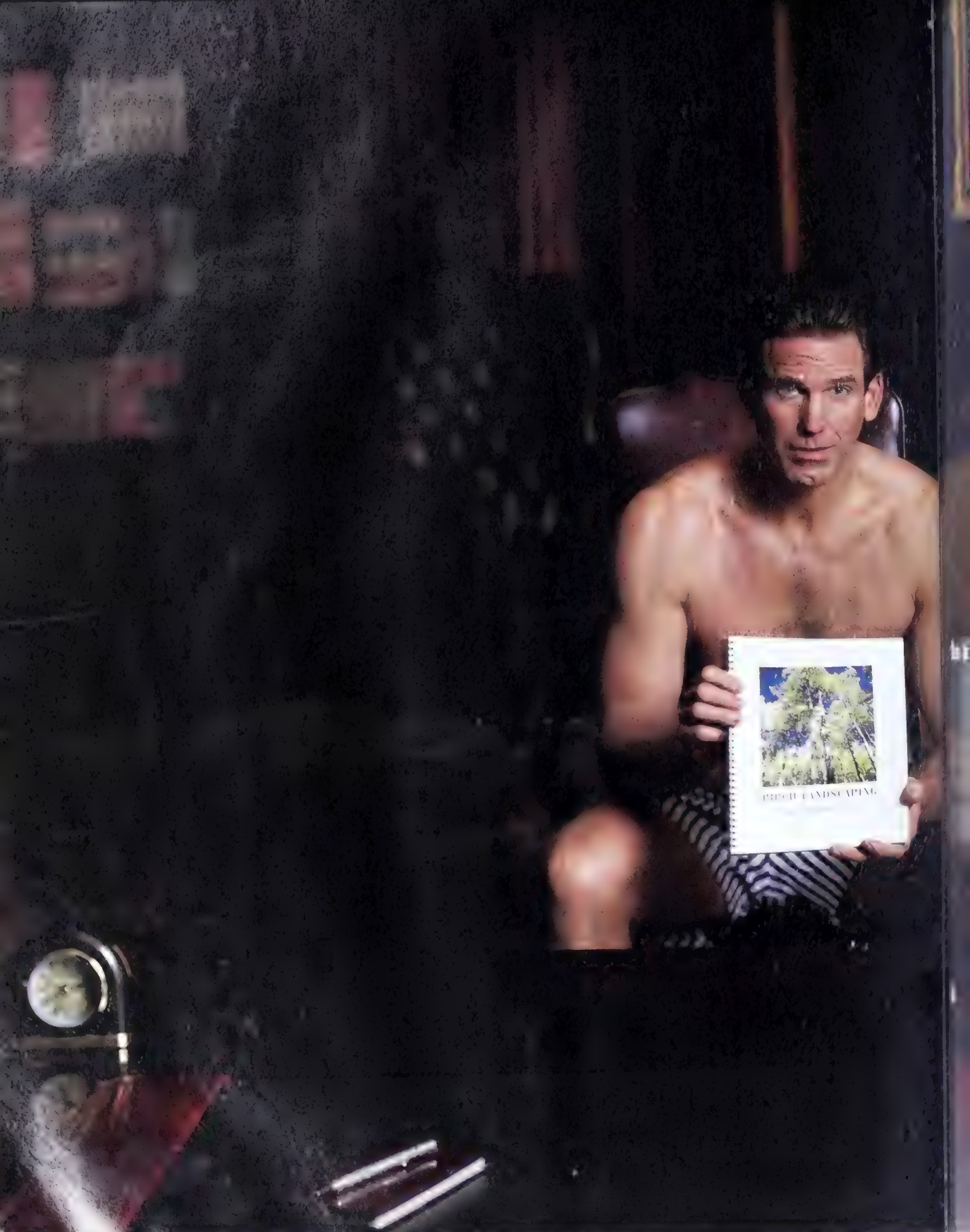
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THE PITFALLS OF PLASTIC

Credit cards can save a small business—or sink it

It started slowly. The business needed money—fast. Bills were mounting. A bank loan would take time and be a hassle. So the Portland (Ore.) restaurateur turned to his credit cards to help tide him over. He used one card, then another, then another. Before long, he piled up \$95,000 on 15 different personal cards. Now he has hit bottom. Unable to pay, he faces personal bankruptcy.

His story—related through his lawyer—illuminates the risks of what has become one of the most popular ways to finance a small business. Quick access to credit-card borrowing can help a business get started and grow. But bankruptcy lawyers and judges say they see it also coming back to haunt a growing number of small-business owners, some of whom wind up in court with multiple cards—and debts that are out of this world.

ALLURING. For many cash-starved small-business owners, the need or lure is just too great. And it's not only marginal players. Some 23% of U.S. small and midsize businesses finance in part through credit cards, up from 16% in 1992, according to the 1996 survey of such companies by Arthur Andersen's Enterprise Group and National Small Business United. Another recent survey by Tampa market researcher Payment Systems Inc. found that 12% of companies with annual sales of \$500,000 to \$10 million financed operations to a degree with personal cards, while 40% of companies with less than \$500,000 in sales did.

And why not? Wringing money from a bank can be tough, and getting funding from outside investors is no easier. Cobbling a business plan is expensive and time-consuming, and investors often demand a 30% return. "It makes the rates on credit-card financing not look so bad," says Nancy C. Pechloff, director of Arthur Andersen's Enterprise Group.

In fact, changes in the credit-card

business have made card borrowing far more alluring in recent years. Since 1992, cards have been the fastest form of loan growth for banks and have returned at least 50% on equity. Last year, 2.7 billion card solicitations were mailed, compared with fewer than 1 billion in 1992. At the same time, interest rates fell steadily, and credit limits soared. One aggressively growing issuer, First USA, now offers \$5,000 to \$100,000 credit limits with annual interest rates of 5.9% for the first six months and a variable 12.9% after that.

DEBT



Add more cards, and the amount of credit available with no collateral can get pretty staggering.

How many small-business owners are getting caught in the plastic trap? That's hard to pinpoint, but many experts are convinced that the overall bankruptcy figures mask huge losses attributable to small business. Personal bankruptcy filings are at an all-time high—1.17 million last year, up 27% from 1995—while business filings have remained flat, at around 53,000. In some cases, the busi-

ness is a sole proprietorship, and credit card debt gets wrapped into a personal bankruptcy. In others, debt on personal cards was incurred to finance a company that's still in business.

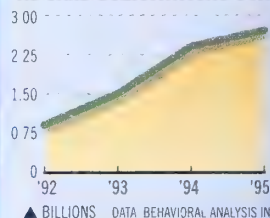
Of course, using credit cards needn't lead to disaster. Consider late-life entrepreneurs Josephine and Joseph Brashear, who in 1993 opened The One Off CD Shop, a CD publishing and information service in Minneapolis. With no salaries for almost two years and no track record for bank financing, they maxed out five cards with about \$35,000 in debt. Monthly payments of \$1,000 barely covered interest. But by last year, they had results needed to obtain a line of credit from Norwest Bank. This year, the four-person company has paid off the cards and expects revenue of \$340,000. "It's like any use of credit. You have to be judicious," says Joseph Brashear. "It's an expensive funding mechanism, but we wouldn't have been able to start the business without it."

The danger is that writing your own

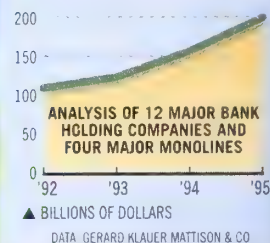
THE PLASTIC TRAP

Experts say personal debt masks much business borrowing

AS CARD SOLICITATIONS SOAR...



...SO HAS CREDIT-CARD DEBT



credit line is like writing your own drug prescription. "You don't get the perspective of an experienced lender," says Ian T. Ball, a Minneapolis bankruptcy lawyer who specializes in small-business cases. You can lose sight of your business plan while low monthly payments make it seem all is well.

The dangers of abusing credit-card debt are many. Even more plentiful though, are the card applications that land in the mailbox each day.

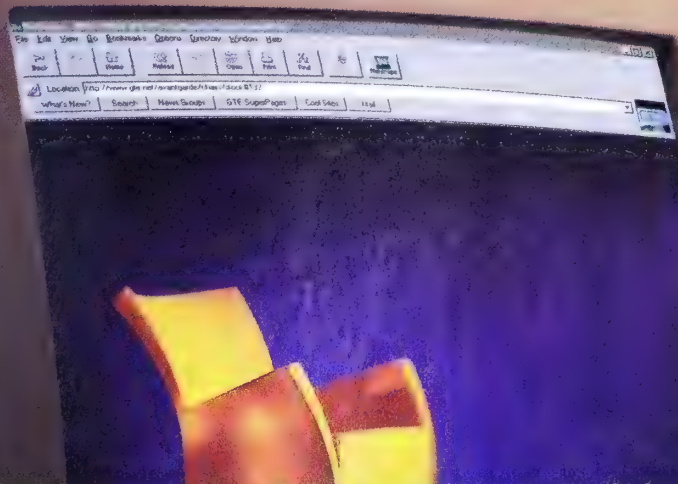
By Dale Kurschner in Minneapolis



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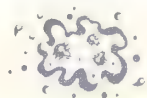
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IT'S 2000. DO YOU KNOW WHERE YOUR DELIVERIES ARE?

The millennium bug threatens everyone's computers. Here's how to immunize

On Jan. 3, 2000, Don Houseman hopes he'll be back at his eight-person sheet-metal-stamping company in Watsonville, Calif., doing business as usual. But first, he says with a touch of gallows humour, he'll have to find out whether "we're still in business" at all.

There's nothing mystical about Houseman's concerns. What worries him is his suppliers' ability to address a monstrous computer problem: the so-called millennium bug, which is expected to wreak havoc in computer systems around the world when the clock strikes midnight on Dec. 31.

COMPUTERS

"We order materials on a daily basis, and getting them on time is real important to us," he says. "If their computers go down, we don't get our steel." For other businesses, the problem might lie within their own machines rather than with outsiders. But wherever the bug may lurk, fear of it is well-founded.

MEGACRASH? Simply put, the bug refers to the inability of many software applications to perform calculations correctly beyond the year 1999, thanks to a practice set in place at the dawn of the computer revolution. To save on disk space, early programmers chose to leave the "19" off yearly dates, never dreaming their programs would be around in 20 years. On New Year's Day, 2000, a lot of computers and software will think it's 1900. That could cause them to lock up, fail altogether, or produce wildly unpredictable results such as notices that payments are 99 years overdue or interest calculations that run a century.

Big business has gotten most of the media attention on the issue, but "small companies in particular are at risk" for bug-born grief, says Ken Orr, a Topeka (Kan.) specialist in the subject. "Either their suppliers have problems, or they

hired their brother-in-law to build a database and have been running it forever, happy as clams. They're just going to wake up one morning and find that their computers won't run."

Most experts believe that, left uncorrected, the bug could affect 90% of all computer applications, regardless of a company's size. Companies selling widgets on the Web could find customers turned away when told their credit cards are invalid. A tape

backup of the most recent computer file made on Jan. 3, 2000, could look for file dated 1900, missing files created that day. Because the bug also lives in certain devices containing embedded chips, elevators and bank vaults could lock up. Even farmers aren't exempt: Certain tractors with computerized electronics won't turn on after 2000 if the problem is left uncorrected. How serious an effect could there be on various devices? Peter Jager, a leading year 2000 expert who has testified before Congress on the issue says, "It could be in 1% of embedded chips or 99% of them. We still don't know."

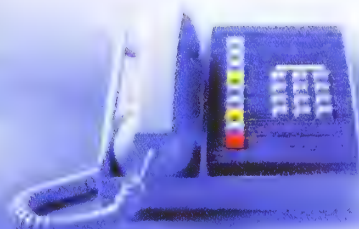
According to Gartner Group, a computer-industry research firm in Stamford, Conn., as many as 30% of all bread-and-butter computer applications could fail, causing 10% of all businesses to go belly up due to lost business, stalled production, or lawsuits from angry customers.

The risks of this bug are spread unevenly, however, and some business owners feel confident their operations are not endangered. John Van Sickle, who runs a 20-employee company selling cheesecakes through the World Wide Web, is nonchalant. "Most of the dates in our customer databases already have the 19s in front," he says. "Even if we did run into a problem we could probably recover quickly. I mean, we're not General Motors."

But Van Sickle has more faith in his vendors than folks like Houseman, who worries that his suppliers will go down, leaving him stranded. "The only thing I can do is to have inventory on hand," he says.

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of packaged software are likely to face fewer problems. Nordic Needle, a 21-employee knitwear company in Fargo, N.D., keeps critical information about its 50,000 customers in an off-the-shelf accounting-software package that handles dates beyond 2000. "We're pretty confident that we're going to get off scot-free," says manager Janet Berg. But companies running older programs are liable to have more problems. How old is old? Unfortunately, that depends on the specific program, making it impossible to generalize. In most cases, an upgrade will take care of glitches, provided the vendor has one to supply. But if a company neglects to upgrade its 1989 copy of Quicken 1.5 and it goes ka-thunk in 2000, it's not clear who will be liable for the consequences, says de Jager. "That will be decided in the courts."

LOST IN THE MAZE. The far greater risk lies with older, custom-built database programs, which have informational jewels buried in historical data, such as dates of birth, hiring, eligibility, and expiration. At Liberty Bank, a community bank in Boulder Creek, Calif., all the records are time-stamped and run on a mainframe operated by a third party. Unless the software vendor successfully combs out the millions of lines of computer code, Liberty will be in trouble. "We won't be able to do business, we'll be buried in complaints, and we'll have the federal regulators on us in no time," says chief information officer Tony Ho. "There would be no way to measure the damage."

Fixing database programs written in old code won't be cheap. The going rate for consultants is now \$1 per line of code, and that price is rising 20% to 50% per year, according to Gartner Group. Jennifer McNeill, president of Cipher Systems, of Calgary, Alberta, one of the few North American companies willing to help small businesses with their bug problems, offers the example of a small manufacturer with a 10-year-old database containing 700,000 lines of COBOL code running on a midsize computer built in the 1980s. "I told them it would cost \$700,000 to keep their systems running just the way they do now. They looked at me like I'm crazy," says McNeill. "They never imagined spending that

much on a computer system. Ever."

So what can companies do to make sure they're not bitten by the bug? Start now. Because they have fewer computer systems to worry about, small companies have a better chance of finding, fixing, and testing everything if the work is begun now. The longer you wait, the more it will cost.

Assess the risk. Companies that run old computers and software or deal with a lot of numbers and projections—in fi-

what happens. If it comes back with "invalid date," you have a problem. You can do the same with your vendors and contractors. Place an order for March 2002. Did it go through? The millennium bug can affect every computer built before mid-1996, from 486 PCs to large IBM or Digital computers, as well as a kinds of other devices. On a pre-1996 model PC, you'll still need to fix the computer's BIOS (binary input/output) chip—used to control computers' basic functions—by loading Windows 97, manually

resetting the date in the Windows control panel, or asking the computer's manufacturer for a software patch. If one isn't available or the company has stopped manufacturing the system, you'll probably have to replace the computer. None of this is an issue for owners of Apple computers.

While it's impossible to identify every problem computer or program, consultants do offer a few guidelines. If your PC is a Pentium, it is likely to handle the turn of the century without a hitch. Macintosh computers can handle dates up to 2019, but not every Mac software program is immune. Up-to-date software is likely to be fine: Microsoft Excel 95 handles dates to 2078; Excel 97 and Claris Works 4.0 can handle dates up to 9999. Software that the vendor is no longer shipping should definitely be tested, but even with software still being marketed, it's best to check with the vendor to be sure it's bug-free.

Strong-arm vendors. You should get in touch with suppliers to find out when their products will be year-2000 ready—and to make sure their fixes will work. If a supplier can't assure a fix, small businesses may take the hit. To avoid that eventuality, make vendors and suppliers sign warranty

extensions to their contracts stating that their systems can handle the year-2000 problem.

Hedge your bets. There is no way to guarantee that every bug will be found and fixed by the deadline. So smart companies should seek legal advice and ask their insurance broker if a rider is available to cover potential losses and liabilities. Protecting yourself from the bug won't be easy. Failing to could be fatal.

By Bronwyn Fryer in Santa Cruz, Calif., with Elaine L. Appleton in Newburyport, Mass.



CATCH THE BUG WITH THE WEB

Most consultants who work on year-2000 issues accept only large clients. Here's where small businesses can get some help.

PETER DE JAGER'S YEAR 2000 PAGE

<http://www.year2000.com> lists dozens of year-2000 consultants and offers a calendar of relevant conferences. Also available are articles, lists of user groups, and answers to commonly asked questions.

THE INFORMATION TECHNOLOGY ASSOCIATION OF AMERICA

<http://www.itaa.org> provides a Year 2000 Buyers Guide along with a directory of vendors specializing in bug fixes. An "issues and observations" page and a weekly newsletter are also valuable resources.

UNISYS

runs a Web site listing year-2000 user groups at <http://www.unisys.com/marketplace/year2000/geninfo/usergrps.htm>, complete with their locations, phone numbers, and related sites.

DIGITAL CONSULTING'S YEAR 2000 ISSUES AND ANSWERS CONFERENCE AND EXPO PAGE

<http://www.dciexpo.com/2000AD/> lists industry conferences focusing on year-2000 issues.

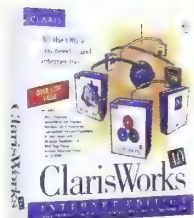
nance and insurance, for instance—are apt to find the problem more pervasive than those in, say, retail clothing sales or graphic design. But regardless of the size or the kind of business, consultants are recommending that companies set priorities. Life-or-death systems—software that handles product delivery or cuts checks for employees and suppliers—should be fixed first, lest a company find itself facing legal or operational problems. Less critical systems can wait.

Check everywhere. How? Simply enter a year date, say 2021, into a program like Excel or Quicken and see

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HOW DO YOU HITCH YOUR WAGON TO A STAR? CAREFULLY

Having a giant for a client poses huge perils as well as opportunities

Jeff Bleecker and his business partner, Tony Hollars, could hardly believe it when Reebok International Ltd. called. Innovations in Cycling, the Tucson company they had founded a year earlier, had netted just \$10,000 selling Superflate, a portable, canned-air tire pump for cyclists which Hollars had invented. Bleecker, 28, was making a living from his three bicycle stores, while Hollars, 27, bought and sold used cars.

What Reebok wanted was cool technology to accessorize the pump-up sports shoe it had released a year earlier. At that point in 1990, Innovations was just two young entrepreneurs outsourcing production. "We were gaga," Bleecker says. "We were selling about 8,000 a year, and they were talking about 8,000 a day."

AWKWARD AGE. This is the stuff of entrepreneurs' dreams—landing the megadeal with an IBM, Sears, or Sony. But growth spurts are as awkward in commerce as in adolescence. Reebok took more than two years to commit to the deal. Then, Bleecker and Hollars found themselves in a scramble to learn the manufacturing process, buy equipment, find and train staff, and dig up the money

STRATEGIES to pay for it all. In 1994, Innovations raked in \$3.5 million from the Reebok contract alone—80% of its sales that year. But the next year, Reebok lost interest, and Innovations pulled through only by reacting fast. "There's no question we made a lot of money," Bleecker says, looking back. "But it could have been a disaster."

The Big Deal poses opportunity and risk in almost equal measure. When



stretch finances too far and be caught short on cash. Or it may get caught up in the big client that it neglects others.

Michael Gerber, 63, had a close call in the mid-'80s when his Santa Rosa (Calif.) training company, E-Myth Academy, inked a deal with a large computer-services firm. In his zeal to serve the client, he stopped minding the store. "I wasn't watching the money, the sales system or the implementation of services," he admits. The company almost went under. Gerber spent the past decade rebuilding E-Myth and he has this advice for when a megaclient appears: "Instead of counting your blessings, take a deep, cold, hard look at what it means."

If you've got the stomach for the wild ride, a big partner can be a good teacher. Reebok engineers and advisers showed Bleecker and Hollars the ins and outs of manufacturing, quality control, and management techniques. But

WILD RIDE: Dazzled by the Big One, a company may stretch its finances too far or neglect core customers

growth and change happen at breakneck speed, systems break down, relationships fray, and vision can become blurred. "People don't go in with their eyes open and don't play out the worst-case scenario," says Vicki Clift, a marketing consultant and small-business owner in Santa Maria, Calif. A small company may

the lessons often have to come with more than good counsel. Bleecker figured Innovations would need \$500,000 to set up production for Reebok, but no commercial bank in Tucson would give him a loan. "We were really asking for venture capital, and banks just don't do that," says Bleecker. "But we didn't want

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missing.

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interest in the company." Finally, Reebok offered an advance against royalties.

Indeed, few banks are willing to fund rapid expansion based on a single client's purchasing plans. "We want to be sure they can handle the repercussions and that the customer will continue," says Sandy Maltby, executive vice-president for small-business lending at KeyCorp.

To stand a fighting chance with your bank, it pays to develop a close relationship. A few months ago, GGS Information Services in York, Pa., won a \$1 million-plus contract with Grove Worldwide, a maker of construction cranes and forklifts, to create and manage a global database for parts. The \$12 million company needed \$300,000 to buy file servers, scanners, and other equipment. That came as no surprise to its lending officer, because GGS meets with the bank quarterly and had already discussed the project. GGS got its loan.

"WEIGHT IN GOLD." During a 1989 growth spurt, GGS had learned a few other tricks for managing fast growth. In bidding for the Grove contract, GGS President Paul Kilker factored in an extra month, then began recruiting and working with subcontractors right away. "You always underestimate how long it takes," he says. In January, a trial run of the system for Grove failed. Luckily, Grove wasn't expecting the system until April. "You may have to pay your suppliers a little early," Kilker notes. "But it's worth its weight in gold when the client comes and says: 'What? It's done already?'"

Of course, it's tough even to pay your suppliers on time when major clients delay payment—as they often do. When Reebok's checks started coming late, Innovations had to stretch out payments. "At one point, they owed us a million dollars,"



BLEECKER AND HOLLARS: Reebok took a shine to their bike pump

Innovations' founders failed to prepare for the gap left when their big client lost interest

Bleecker says. "We finally told them we could not ship unless they paid." Reebok obliged. Observes Roger Harris, an accountant and president of Padgett Business Services: "Businesses more often go under because they run out of money than because they're not profitable."

Even when money isn't the problem, rapid growth can be a huge chal-

lenge. Systems that work for small quantities may not work for larger orders. Hiring is tough for small companies used to adding just one or two new workers. When Kilker boosted his staff from 75 to 100, he needed people who could read blueprints and write computer programs. Unable to find enough workers with adequate skills, he paired experienced people with inexperienced. "We were really training on the fly," he says.

Solving one problem can sometimes create another. Increasing staff can mean more government regulation. A tiny company doesn't have to worry about the Americans with Disabilities Act of 1990. The ADA kicks in at 15 employees, the Family and Medical Leave Act when your staff numbers 50.

Of course, just when you've finally got a handle on war-speed growth, there's always the chance it will screech to a halt. In 1995, orders from Reebok dried up. For three years, the two entrepreneurs had been so distracted by their big client that they had neglected their core constituency. "All the money was gone, and we weren't on our feet," admits Bleecker. They refocused on developing new bike-related products. And then they got lucky. Rema Tip Top North American Inc., the big name in

bicycle tire repair kits, cut out its wholesalers for bigger margins. Within weeks, Innovations put together copycat kits with tire patches from Asia and jazzy packaging and went straight to the distributors. That nursed sales back up to \$2 million last year, but Innovations owes a lot to Rema's gaffe. "We could have gone either way," Bleecker admits.

As anyone who has been through it will tell you, it takes luck to survive a lucky break. Before the big deal has you dancing for joy, be sure your feet are on solid ground.

By Edith Updike
in New York

SURVIVING SUCCESS

For a small business, landing the Big Deal is an occasion for caution.

CHECK OUT THE CLIENT Run a TRW or Dun & Bradstreet on the prospective client. Talk to other vendors. Do they pay on time? Any lawsuits against them?

THINK STRATEGICALLY Do you want this level or kind of growth? Does the deal fit with your business?

STAY COOL Don't be so eager to hook the client that you sell yourself short on time or profits.

EXPECT THE WORST Leave a financial cushion in case the client pays late, dumps you, or goes bankrupt. Act as if a big contract could vanish at any moment.

KEEP OLD FRIENDS Don't neglect your other customers or stop looking for new ones. You may need them.

GET THE CLIENT'S HELP Ask your customer to chip in with money, technical or other support.

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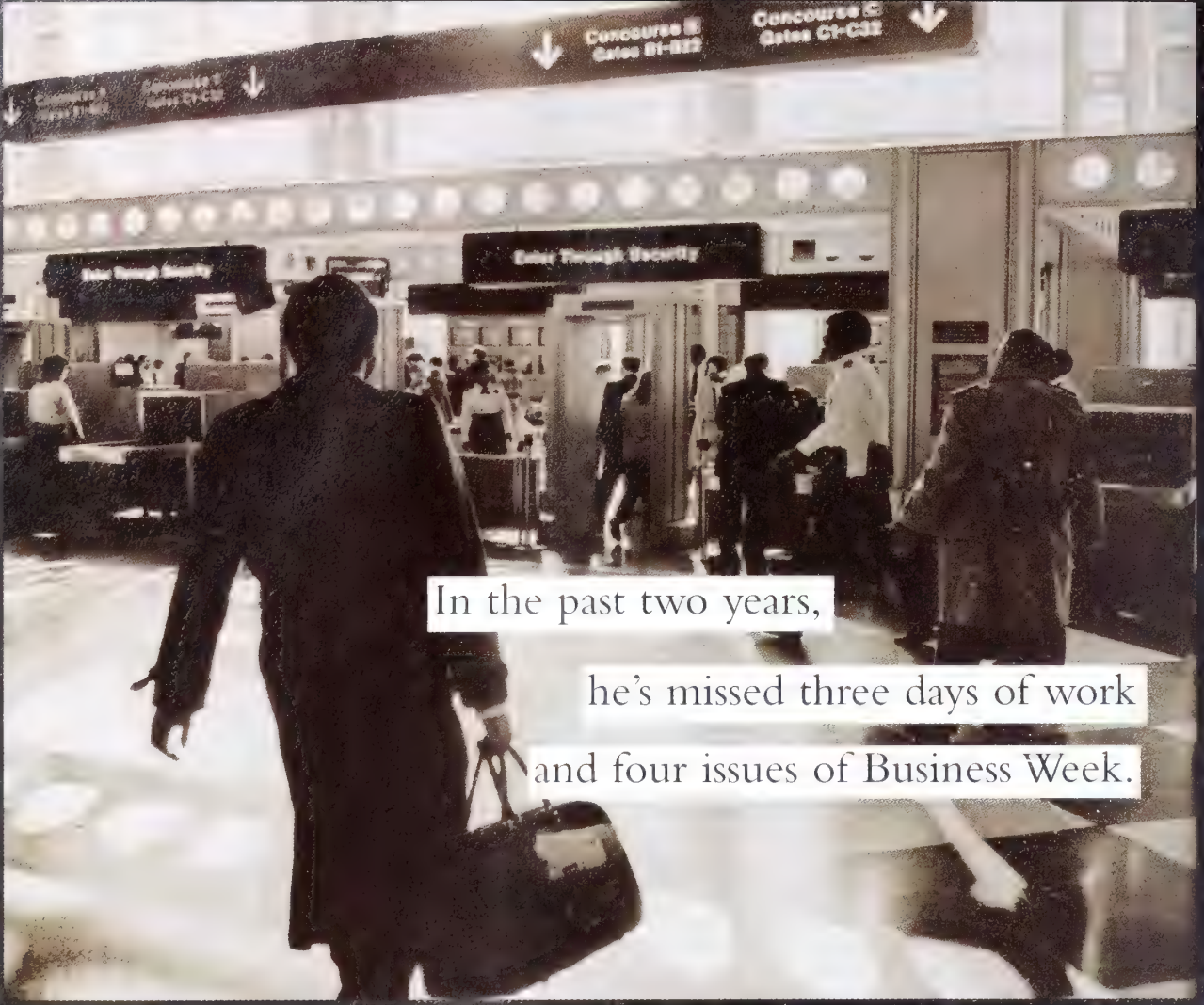


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IS THIS WEEK'S MODEL MORE COMPUTER THAN YOU NEED?

Many small businesses are finding used and refurbished PCs suit them just fine

Frederick C. Ford has learned his lesson: He won't buy new computers. After forking over a budget-breaking \$6,000 eight years ago for a Compaq portable machine and then finding it was almost worthless two years later, he is buying used and refurbished computers. "If you are willing to stay just behind the cutting edge, you can save money," says Ford, vice-president for sales at Boston brokerage Moors & Cabot Inc.

Ford estimates he has saved at least 50% purchasing technology that's a generation or two old, and he still gets the performance he needs to track clients' portfolios. About two years ago, he bought a 486 desktop and a 486 laptop PC for the then-bargain prices of \$1,000 and \$1,600, respectively, from computer broker, Boston Computer Exchange. This year, he spent just \$1,250 for a refurbished Toshiba Pentium 100 laptop, which operates Windows 95 and contains a CD-ROM.

DEEP DISCOUNT. The downward spiral of computer prices yields great buys on used machines and, perhaps more important for small business, on refurbished ones—nearly-new computers often recertified and sold with original manufacturer warranties. Boston Computer Exchange was selling a Pentium 133 IBM desktop machine with a 1.6-gigabit hard drive and 16 megabytes of RAM for about \$850 used and about \$1,000 refurbished. It cost about \$1,600 new last year. A Pentium 100 Toshiba laptop that sold for about \$2,300 last year now costs about \$1,250 refurbished and \$1,050 used. Those who sell the



COMPUTERS

gear argue that most small businesses don't care about peak processing speed or the latest upgrade. A letter can be typed as well on a \$500 used 486 computer as on a \$2,000 Pentium. Even more sophisticated functions—spreadsheets and tax programs—run on computers a generation or so old. "These 486s are the power we need," says Pat T. Worley, president of Mallory Canvas Products, a printing firm in Carthage, Mo., who recently bought two used 486 Compaqs.

Experts note a paradox in buying older computers, though. "The more technically advanced the buyer, the less technically advanced the computer needs to be," says D. Navin-Chandra, a former computer-science professor at Carnegie Mellon University in Pittsburgh and chief scientist at Nets Inc., a Cambridge (Mass.) electronics company. Newer computers tend to be easier to use, and the latest technology means you don't have

to worry about capacity. Navin-Chandra suggests that the technically secure buy machine just behind the technology curve, and indeed he says, many small businesses can get by with earlier Pentium models. "Not everyone needs to run Lotus Notes and Netscape and Microsoft Word all the same time."

Joseph C. Pucciarelli, research director at the Stamford (Conn.)-based Gartner Group, cautions, though, that sa-

REFURB MAN

Rumerson founder Paul Baum sells a major-name refurbished Pentium 133 desktop for \$1,000

ing a few bucks on hardware can cost company money in training and operations later when it upgrades—and that the most expensive part of owning computers. A 486 that will only run Windows 3.1 might be cheap, but will the staff need reeducation for Windows 95 now the industry standard?

"It's a bad idea to buy used computers," Pucciarelli says. "It puts a small company at a technical disadvantage. Tech support is harder to get, and many Internet applications demand more horsepower than older machines deliver."

He says the best bet for a company that needs to save a few bucks lies with refurbished machines—equipment returned to dealers in the first 30 to 90 days either for repair or exchange. If needed hardware repair, he suggests caution: Once a computer has failed, it's more likely to fail again. And the more it's handled, the higher the failure rate.

One solution is to buy a machine re-



ified by the manufacturer from a refurbisher that provides support. Paul L. Rumerson, founder of Rumerson Technologies Inc., a New York City refurbisher for manufacturers, says most returns stem simply from uneducated minds. He says his out-of-box failure rate is less than 3% because of extensive testing. Machines are recertified with the original manufacturer warranty and sold with original documents. Although more expensive than used, they can save money. Rumerson sells a major-name refurbished Dell 133 desktop with a 14-inch monitor and color inkjet printer for about \$1,000, compared with \$1,850 new.

TECHMAKERS, TOO. Dealers abound in the market. Refurbished machines are sold through mail-order catalogs, computer-refurbishing companies such as Rumerson (www.rticorp.com), and a few manufacturers such as Dell Computer Corp. Brokers such as Boston Computer

FLEA-MARKET MANIA
20,000 people check out the wares at this monthly all-night sale in Dallas—a good source for the savvy buyer

Exchange (www.bocoex.com) and Atlanta-based American Computer Exchange (www.amcoex.com), sell both used and refurbished equipment and match buyers and sellers. Retail stores are another source. Franchise outlets, such as Minneapolis-based Computer Renaissance, even have their own service departments. Flea markets—such as a monthly all-night sale in Dallas that attracts 20,000 people—can be a good place for savvy buyers to shop.

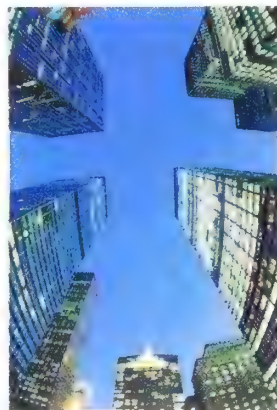
The used-equipment business is developing into a sophisticated marketplace, says Alister C. Miller, owner of the Dallas flea market. And many dealers are targeting small business as a logical market for trade-ins from big corporations. That's probably good news for small business. With technology moving ahead at warp speed, a seat on the leading edge may not be worth the ticket.

By Janin Friend in Dallas

WHEN BUYING USED COMPUTERS...

- ▶ Know what kind of programs you want to run and what functions are most important. For example, running complicated financial spreadsheets or getting fast access to the Internet require different capabilities.
- ▶ Don't buy a 486 unless cost is absolutely critical. It won't be able to support the latest software. Go for the 75, 100, 120, or 133 Pentiums or just about any Pentium laptop.
- ▶ Make sure you have enough disk space and memory—at least an 810-megabyte disk and 16 MB of RAM.
- ▶ Ask whether the computer comes with an operating system. Make sure it has Windows 95 loaded and configured.
- ▶ Ask whether manuals will be provided or can be obtained for the computer, and determine what kind of service is available after purchase.
- ▶ Check the warranty. Warranties on used computers can range from 2 to 90 days. On refurbished computers, the warranty can be one year or more—the same as for a new computer.

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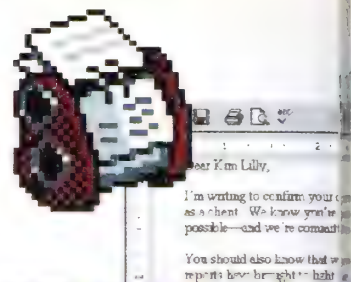
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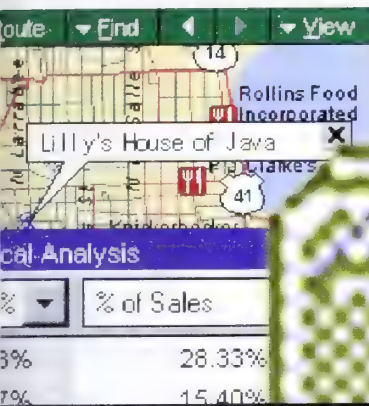
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Items	
Product	Cost of Sales
House Special Blend	\$499,138.9
Kenyan Blend	\$399,031.0
Costa Rican Blend	\$288,392.9
Decaf French Roast	\$359,090.0

Microsoft Office 97 **Small Business Edition** **knows where**

(Also, where you're going, how to get there, what you



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ales are and how to spell "rhythm.")

ur new Microsoft Office 97 Small Business Edition is based on thousands of hours of interviews with small business owners; we heard all about the wide variety of tasks you have to do in a day—from the mundane to the extraordinary—and this is the software we assembled to help you. It starts with the new releases of Microsoft Excel 97 and Word 97, and adds a few other indispensable applications. Microsoft Financial Analyzer, for example, turns raw numbers into insightful information that can help turn a cash trickle into a cash flow. Publisher 97 will help you create professional-looking brochures, business cards, labels, even Web sites. Microsoft Internet Explorer 3.0 helps you browse the Internet, access all kinds of business resources, drum up new contacts and re-establish old ones. When you want to contact your contacts in person, Microsoft Streets Plus will give you a detailed map of how to get there. Finally, Outlook 97 organizes your e-mail, your schedule, your connections—basically, your life. With Microsoft Office 97 Small Business Edition taking care of all your busy work, you concentrate on other things—like making your small business into a larger one. For a more thorough tour of Microsoft Office 97 Small Business Edition, just visit our Web site at www.microsoft.com/office/sbe/.

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Microsoft



BY KEVIN KELLY

ONE BYTE AT A TIME

A roll-your-own network is a perilous project, but it saves big bucks—and even rouses the ranks

It isn't every day I blast The Cranberries' song *Zombie* from my computer's CD player. But today we inaugurate our local-area network, and a carnival atmosphere fills the office. Co-workers gather around each other's desks, marveling at the miracles wrought by word processing. For decades, the clerical workers labored over typewriters. The bookkeepers can't believe how much easier Excel looks compared with the old spreadsheet program. And these computers are so much faster and better-looking, I keep hearing, than the five-year-old models they're replacing.

This enthusiasm quickly spills over into action. Staffers type up their own letters, freeing customer service people to handle more calls. Our plant engineer hatches a plan to use E-mail to buy replacement parts from suppliers that post catalogs on the Web. That will reduce order errors, since we'll get to see more of the parts before we purchase them.

I'm grateful for the good beginning. At our family business, Emerald Packaging Inc., a 33-year-old plastic-bag maker, we had muddled over a local-area network for three years. The idea was to save clerical time, feed sales, costing, and production information into all parts of the company in real time, and create new efficiencies—all the things computer networks are supposed to do. My sister, Maura, who initially spearheaded the project, backed off in 1995, frustrated that she couldn't find the right software package. When I joined the company a year ago, she dumped her project files on my desk. **EASY PACE.** I took the challenge. But since a little bit of knowledge can be dangerous, my first step was to find a good consultant. I tracked down a friend who worked for a large software firm, but the rapid timetable he proposed was certain to overwhelm non-techies. I called big consulting firm contacts—too expensive. I settled on Tom Li, a local consultant who had helped us keep our ancient PCs working for the past three years.

Good choice. Tom understands our company, knows a lot about technology, and hasn't pushed the project faster than we've been willing to go. He spent months,

for instance, helping me decide what kind of server we needed. One consultant had suggested we'd have to spend at least \$15,000 for a high-end Hewlett-Packard server. Tom helped me figure out that a midrange Compaq Computer model would do the trick for only \$6,600. And we can afford him: He charges \$150 per hour vs. \$250-plus at, say, Anderson Consulting.

But cracking the software conundrum hasn't been any easier for me than it was for Maura. Unfortunately, there is only one package written for companies in our business. We could have it for \$110,000, no less. That's a staggering amount when

you consider the typical software package for manufacturers our size costs around \$30,000.

Even so, Tom and I gave the software serious consideration. It provided everything we wanted—pricing, job costing, inventory control, shop floor data collection, and the full suite of accounting modules. Unlike off-the-shelf products, it did so using industry-specific language. Worse yet, Tom and I concluded, we would have to customize any other package so severely that future upgrades would erase our modifications.

But \$110,000 just seemed too steep. So about three months ago, Tom and I determined to go it alone. We decided to buy the accounting modules and inventory system off the shelf but create our own job costing, sales order, pricing, and shop-floor programs. We have budgeted \$35,000 toward the project and hope to have it done by mid-1997.

So far, we don't have much to show. Fear of acting before we know exactly what we want to measure has slowed us down. But I think we have broadened our chances of success by seeking input from as many sources as possible. We've corralled line workers to aid in setting up the shop-floor reporting system. That's helping us figure out what we should measure and how the screens should look so they're user-friendly. So far, we've mapped out the graphics on storyboards, which are on a table in the conference room, where anyone can go and attach yellow Post-It notes about cutting or adding fields.

Buying the hardware before we have the software may seem like putting the cart before the horse. But many of our officers don't have much computer savvy, so this way they'll have time to get comfortable using the spreadsheet, word processing, and E-mail programs. And since we're looking to hook 14 computers together, building a local-area network seems like a no-brainer. The enthusiasm and ideas generated by the mere presence of the new machines has convinced me that while computerizing may not be easy, it will probably prove to be one of our safest investments yet.

Kevin Kelly, a former BUSINESS WEEK writer, is an officer at Emerald Packaging in Union City, Calif.





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As proud as we are of our software, we have to admit you can't do much without a Windows-based PC to run it on. So, our [small business Web site](http://www.microsoft.com/smallbiz/WebSite) includes links to a number of leading PC manufacturers, all of whom offer [a range of systems built to meet the needs of small businesses](#), all of which feature a variety of Microsoft business software pre-installed. You can find the configuration that's right for you along with articles and advice to help you decide—by visiting us at www.microsoft.com/smallbiz/Windows

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GOT THE DOCUMENTS?
TAX COURT MAY ALLOW WHAT THE IRS WON'T

fari as a publicity stunt—but only after proving that the board of directors had weighed the potential benefits of the trip. In 1983, the owner of a Wisconsin slaughterhouse, who wrote off sponsorship of a local-circuit race car, beat the Internal Revenue Service by proving that his farmer-clients saw the company's name on the vehicle. Another racing aficionado was NASCAR fan Paul S. Dwyer, a Colorado real estate developer. He set up a separate company for racing. The IRS disallowed it, insisting it was a hobby. But in

1991, the Tax Court, noting, among other factors, that Dwyer quit driving after two winless years, disagreed.

So it's not so simple after all. Obviously, thinking big means making sure your claim is backed by the proper paperwork. One New York law firm, for instance, rents an upstate getaway during ski season. The firm invites clients (no spouses) for work-play weekends and writes off the cost. The lawyers make sure dated computer and fax documents prove work got done—even if it was between ski runs.

For all tax deductions—and particularly the more interesting ones—documentation is crucial, says Bernard Kent, a CPA at Coopers & Lybrand. When entertaining clients, he advises keeping log of whom you took out and what business was discussed. With more exotic deductions it's best to keep records of internal company discussions, too.

RED FLAGS. Clearly, inventive deducting does increase the odds of an audit—and defending a deduction can be more expensive than just paying up. But what really raises red flags at the IRS is proportion. Deductions too high for adjusted gross income will automatically kick out your return for review. (The IRS is secretive about the magic percentage, but accountants figure it's around 35% to 40%.)

Some deductible pleasure fly under the IRS's radar completely. It's no secret that up to \$25 in freebies per employee are deductible as *de minimis* benefits—no receipts required. But did you think, as one Manhattan law firm did, to use that provision to write off cigars that happened to be from Cuba? More substantial in-office items might include TVs and video and stereo equipment. What the IRS may eventually want to know is how they improved your ability to conduct business.

As Tax Court cases show what may appear to be a wild scheme to some—and to the IRS—often passes judicial muster. Unfortunately, though, precedent is no sure fire guide, since court decisions are based narrowly on the facts of each case. But one point is clear: There's often no law against mixing business and pleasure.

By Edith Updike in New York, with Stuart Weiss in Portland, Ore.

In January, Seattle-based general contractor Steve Cramer had a lovely break from the Pacific Northwest's winter floods. He and his wife Celia, vice-president of Steven D. Cramer & Associates Inc., spent a few days in Las Vegas. They stayed at the MGM Grand Hotel, saw Bette Midler and the Four Tops, and played a little blackjack. Because the two were also checking out home-entertainment systems, which the company installs, at a consumer-electronics show, most of the trip was tax-deductible.

The travel, entertainment, and meal expenses taken by the Cramers are well-known perks of owning a business. They're nice, but they're not the only way to have fun on Uncle Sam's dime. With a little imagination and some careful planning, you can deduct a lot more. How about writing off some Cuban cigars? A NASCAR team? A country club membership? And what better time than now, with the pain of tax season over, to think about tax-deductible pleasure?

TOO CAREFUL? "Just because it's a tax deduction doesn't mean you can't enjoy it," says Denver accountant James Vonachen. Rather than abusing opportunities, "most people are more conservative than they need to be," says Rory Deutsch, a tax-law partner at Roberts, Sheridan & Kotel in New York.

The rule of thumb is the commonsense notion that a deduction must be directly related to a legitimate business purpose. Sound simple? Consider some deductions the U.S. Tax Court has approved through the years. In 1954, the owners of a Pennsylvania dairy farm prevailed in writing off an African sa-

DANGER: Deducting over 35% to 40% of adjusted gross income may trigger an audit

Federal Express Plans to Add Surcharge

MEMPHIS, Dec. 12 (Reuters) — The Federal Express Corporation said today that it would add a temporary 2 percent surcharge to all express package shipments because of high fuel prices.

The surcharge will be delayed until Feb. 3, 1997, after the peak shipping season, the company said.

"Fuel prices have remained stubbornly high and have significantly affected our operating costs," said Alan Graf, president and chief financial officer.

He said jet fuel prices are about 20 percent higher than last year's second quarter and represent a 10 per-

cent increase from the first quarter. The increase in jet and vehicle fuel prices added about \$25 million, year-over-year, to the quarter's operating expense, Mr. Graf said.

The surcharge will apply to shipments tendered within the United States with certain limited exceptions. It will also apply to all United States export shipments, except those to China and Hong Kong.

The company also posted earnings today. It said its second-quarter earnings were \$103.7 million, or 9 cents a share, compared with net income of \$89.9 million, or 78 cents share, in last year's second quarter.

U.P.S. to Raise Fees Up to 4.3%

ATLANTA, Jan. 2 (AP) — United Parcel Service said today that it would raise fees about 3.9 percent for air service and as much as 4.3 percent for ground deliveries as of Feb. 1. The shipper said higher labor and fuel costs were behind the move.

Federal Express, U.P.S.'s main competitor, plans to add a 2 percent surcharge beginning Feb. 3 to cover increased fuel costs. Airborne Express and DHL Worldwide Express have said they are also considering increases.

U.P.S. said overnight, second-day and three-day domestic air service would increase about 3.9 percent for both business and residential customers. Increases for ground shipments would average 3.4 percent for business and 4.3 percent for residential customers.

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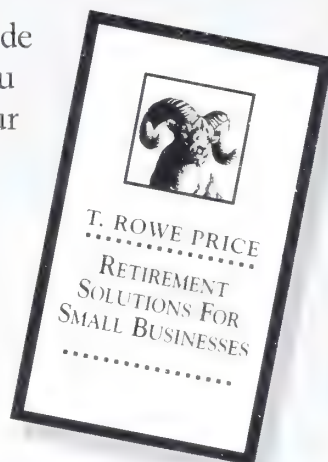
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THE DEMOCRATS' CLEANUP HITTER

Steve Grossman tackles the daunting mess at the DNC

t a meeting in a New York skyscraper on Apr. 7, new Chief Operating Officer Steven Grossman tried to calm a group of nervous investors. They had sunk big money in his high-profile enterprise, and now was facing financial ruin and a public-relations disaster. In a frank report, Grossman outlined plans for a turnaround. "This is a company in disarray," he said to one shareholder who was there.

But this is not your typical business crisis, and Grossman is not your average crisis manager. The investors are major Democratic Party contributors, and Grossman is the man tapped by President Clinton to rescue the Democratic National Committee from the fallout of the Donorgate campaign-finance scandal. While Colorado Governor Roy Romer serves as the DNC's general chairman and public spokesman, Grossman, 51, is working behind the scenes to clean up the mess.

It's a daunting job—even for a successful businessman who has dabbled in politics for two decades while running a family-owned Massachusetts Envelope Co. in Somerville, Mass. Now, with \$1 million in debts, the DNC is too cash-strapped to return \$1.5 million in questionable foreign donations or pay \$2.8 million in legal bills. The committee has political woes, too: Grassroots activists complain that the DNC was so focused on President Clinton's reelection that it neglected congressional, state, and local campaigns wither. "If anyone can bring dis-

cipline and management to an organization like that, Steve will," says Sybase CEO Mitchell E. Kertzman, a Grossman pal and major party donor. "But I'm not sure that anyone can."

Grossman, however, says he has no qualms about taking on the assignment. "When the President of the United States looks you in the eye, you don't say no," he explains. A longtime acquaintance of both President Clinton and Vice-President Al Gore, Grossman

GROSSMAN'S AGENDA

CONDUCT internal review of the fund-raising scandal. Acknowledge mistakes—and implement policies to avoid their repetition.

RETURN \$1.5 million in improper gifts by June 30. Pay off party's \$14 million debt by yearend.

COURT business contributors by convening sessions for DNC "investors." Reach out to emerging business leaders.

INCREASE the visibility of Democratic women and recruit new party activists from among young professionals and labor leaders.

IMPLEMENT frequent job-performance reviews. Some budget outlays will be tied to achieving specific goals and objectives.

GROSSMAN: Donors are "investors" and voters "consumers"

was selected for his management skills, knack for fund-raising, and ability to minimize factional warfare. He showed the latter talent as Massachusetts Democratic chairman and as president of the American Israel Public Affairs Committee (AIPAC). Grossman calls his new job "a front-row seat in helping to define the priorities of the Democratic Party and this country."

Using the language of business, he promises to restore the confidence of "investors" (donors), improve services for "customers" (local organizations), and improve his product for "consumers"

(voters). To improve internal accountability, he has adopted standard business practices, as well. Examples: He has instituted periodic reviews of staff work performances—including his own—and is demanding that even time-honored DNC activities show results to retain funding. He has also trimmed staff, cutting costs.

WOO THE YOUNG. These ideas are based on what Grossman calls "a comprehensive strategic business plan" created after a DNC staff retreat in March. His short-term action steps: acknowledge mistakes, correct them, and implement policies to prevent a recurrence. Phase Two of the plan calls for returning improper contributions by June 30 and raising \$50 million this year to lift the party out of the red. Plans include four \$3 million-a-night galas, a series of smaller Democratic Business Council fund-raisers attended by the President, aggressive pursuit of small donors through telemarketing and direct mail, and a charm offensive aimed at disillusioned ex-givers. One positive sign: The DNC raised about \$8 million in the first quarter, \$1 million above its target.

Grossman's longer-term goals include rebuilding the party's aging small-donor base, wooing a new generation of business leaders, increasing the visibility of Democratic women, and recruiting young professionals and new labor leaders as party activists. He also wants the DNC to invest more in state and local party organizations, technology for



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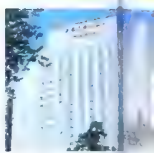
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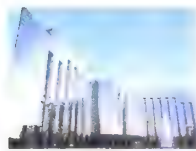
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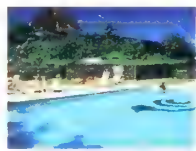
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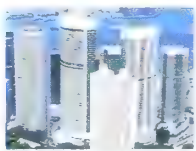
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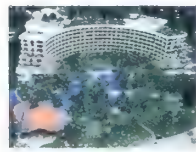
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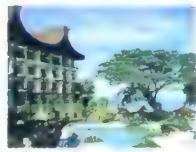
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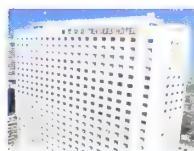
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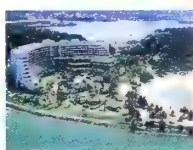
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SHANGRI-LA

fund-raising and communicating, and candidate recruitment. The prize: the 1998 gubernatorial contests, where open seats give Democrats a chance to narrow the GOP's 32-to-17 edge in statehouses. Says Grossman: "If you make the venture-capital investment in 1997, it will pay off on Election Day in 1998."

In many ways, Grossman's plan mirrors his operating style at Massachusetts Envelope, a \$20 million-a-year business founded by his grandfather in 1910. Although friends laud his business acumen, the Princeton University and Harvard B-school graduate is no political neophyte. Before he became president of AIPAC, the largest pro-Israel advocacy group in the U.S., Grossman was a DNC member from 1989 to 1992.

His experience in running a political party in distress dates to 1991, when he became chairman of a Massachusetts Democratic Party that was in debt and dispirited following the 1990 election of GOP Governor William F. Weld. Grossman balanced the party budget within a year, helped Democrats capture a western Massachusetts congressional seat for the first time in 100 years, and paved the way for major party gains in the 1992 legislative elections.

Grossman's success in the state prompts one pol to compare him with a prominent business-makeover specialist. "Steve is the [Sunbeam CEO] Al Dunlap of political basket cases," says Representative Edward J. Markey (D-Mass.). "He spotted the undervalued asset that the Massachusetts Democratic Party had become and turned it around."

BRIGHT SIDE. Turning around the DNC will be tougher. For months, press attention has focused ceaselessly on the ballooning fund-raising scandal, which will soon become the focus of congressional hearings. One friend says Grossman didn't expect the scandal to mushroom as much it has when he took the job in January. "His major challenge is not to become mired in the problems of the past," says a party consultant. "I don't know how he does that."

Grossman prefers to see the positive side of the ledger: Clinton's popularity is holding up, the economy keeps growing, and the public seems to be shrugging off Donorgate. "This Administration has been profoundly successful, despite the tumultuous environment in which we operate," he says.

The White House is convinced that Grossman & Co. can overcome the party's difficulties. Says one senior Clintonite: "They're grinding it out—not looking for a quick fix." Even so, it remains to be seen whether Grossman's enthusiasm and business plan will raise the Democratic Party's sagging stock.

—*Michael S. Dukakis in Washington*

The Corporation

DEALS

WILL TRIARC MAKE SNAPPLE CRACKLE?

Synergies are key, but Howard Stern's return won't hurt

On a freezing Chicago day in February, 1996, Nelson Peltz, chief executive of tiny Manhattan-based Triarc Cos. made his first serious overture to Quaker Oats Co. to buy its Snapple line of fruit-flavored beverages. Meeting in Quaker's executive offices with CEO William D. Smithburg over a bottle of Mango Madness, Peltz didn't mince words. "We can take this nightmare off your hands," Peltz recalls saying to the man who paid \$1.7 billion for the New Age drink maker. Smithburg, says Peltz, was "intrigued" by the idea.

Apparently, not intrigued enough. Set on taking one last stab at fixing the ailing Snapple Beverage Corp., Smithburg turned him down—a decision that he may have since come to regret. Undeterred, Peltz continued to call regularly. And one year later—after Quaker had racked up roughly another estimated \$90 million in Snapple losses, further cutting the unit's value—Smithburg finally threw in the towel. On Mar. 27, he sold out to Peltz for a stunningly low price of \$300 million. That's just over half of the Quaker unit's \$550 million in sales.

INVESTOR PRESSURE. It was the sad, final act in Quaker's Snapple saga—and one that has set the beverage industry abuzz. That Triarc, an industry squirt with Mystic Iced Tea, RC Cola, and Diet Rite, emerged as the buyer shocked many. But ultimately, what even seasoned industry execs found most startling was how far the fortunes of the once sizzling brand had fallen in just two years. Despite Snapple's well-known travails, most expected it would bring a

price tag at least equal to annual sales. "They stole the company," says Snapple founder Leonard Marsh, who sold his controlling interest in Snapple in 1992.

Quaker would not discuss the deal. But the fire sale price is prompting no talk that a challenge to Triarc's deal may arise. Though Jide Zeitlin, managing director of mergers and acquisitions at Quaker's investment banker, Goldman Sachs & Co., insists the deal is firm, both he and Triarc's investment bankers continue to get calls from would-be suitors.

Yet Quaker appeared to have little

The biggest potential buyers wanted Gatorade, not Snapple

choice. It wanted to extricate itself from Snapple this year, when time to reap a \$200 million tax write-off. There were several formal entreaties—including a merger proposal from Arizona Iced Tea valued at \$750 million. Triarc

offer represented not only the highest bid to buy Snapple outright but one that brought with it substantial cash and no antitrust problems. Facing shareholder pressure to put the debacle behind them, Quaker went with the sure thing. "When you're dealing with large consumer products, the worst thing in the world is to announce a deal and not have it close," says Zeitlin.

When Goldman began shopping Snapple last November, it discovered that many potential acquirers were not actually interested in the iced tea and fruit drink company at all. Some of the biggest players approached by the investment bank—PepsiCo, Coca-Cola, and Procter & Gamble—would only discuss Snapple if they could also get Gatorade, Smithburg's crown jewel and

HOW TRIARC PLANS TO MAKE THE DEAL WORK

► Improve relationships with distributors Quaker alienated. Triarc's track record with distributors is stronger

ker's most profitable brand. But getting rid of Snapple was Quaker's priority. Although it agreed to consider offers of \$3 billion or more for Gatorade, it wanted Snapple to be part of the deal. Ultimately, however, the high antitrust complications, and Snapple's problems scared most buyers off. PepsiCo came closest to nibbling, even though it would have had to sell off Snapple because of its rival joint venture with Lipton Tea Co. Investment banking sources report that the cola giant would not, however, come close to Quaker's asking price. Pepsi declined the offer. Goldman continued to canvass potential buyers here and abroad. Others that considered buying were Campbell Soup, F&W, and British candy company Cadbury Schweppes. The deal followed through. That left only Triarc and its two partners,

Michael R. Weinstein and Peter W. Peltz, who had made their names and fortunes in the 1980s by buying and selling companies with the backing of junk bond king Michael R. Milken and Drexel Burnham Lambert. After buying the company that would become Triarc from corporate raider and convicted felon Victor Pincus, another Milken associate, Peltz and Weinstein began to sell off divisions and concentrate on a remaining core of soft-drink brands and fast-food restaurants, with sales of \$1 billion.

To strengthen Triarc, Peltz and May set their sights on Snapple in early 1994. They flew to Boston for Peltz's private Boeing 737 to woo Snapple's largest shareholder at the time, Thomas H. Lee. Lee had us there for a major corporation that was willing to pay a lot of money," Peltz

says. "The price was out of our consideration."

That company was, of course, Quaker. But that deal was barely sealed when Peltz and May began to hear rumblings of trouble from some of the distributors that Triarc shared with Snapple. Then in mid-1995, Triarc bought Snapple's underdog rival Mistic for \$97 million—77% of annual sales. The minute Peltz and May closed the deal, they phoned Smithburg. "We've just entered your New Age domain," Peltz told him. "Let us know if you ever want to sell Snapple."

In the meantime, Peltz and May capitalized on Quaker's missteps. Only days after Quaker pulled Snapple's ads off Howard Stern's radio program, Triarc paid the shock jock to shill for Mistic. Stern's advice to his audience: Replace Snapple in your refrigerators with Mistic.

Distributors were quietly delivering a similar message. Many say they were so unsure of their future with Snapple that they slacked off on the brand, putting more energy into competitors—including Mistic. The brand had a strong promoter in Michael Weinstein, the CEO of Triarc's beverage division. The one-time president of A&W Brands Inc. is a popular figure among distributors.

TENACITY COUNTS.

Triarc's tenacity, mixed with a funky, urban ad campaign, drove sales up 10%, to \$140 million last year, even as the \$6 billion market for New Age beverages plateaued.

As Mistic gained ground, Snapple was losing it—on a much larger scale. Smithburg predicted sales would rise 20% in 1996, but they fell 8% instead. "Quaker was trying to get the toothpaste back in the tube, but that does not work very well," Peltz says.

Triarc's top execs kept in touch with Smithburg, sometimes calling as often as every two weeks. In

the fall, Peltz told Smithburg that asset sales had boosted Triarc's cash on hand to \$200 million. "Persistence is more important than brains in this business," Peltz says. Finally, the Monday after Thanksgiving, Smithburg called Peltz. "He said, 'We've definitively decided to sell Snapple, and we've told Goldman to put your name at the top of the list,'" Peltz says.

The question now is whether Triarc can do any better. While Mistic, with its pitchman Dennis Rodman, is aimed at the hip-hop crowd, there is some operational overlap. Triarc is already talking about blending the management of the two brands and sharing some equipment, ingredients, and distributors.

Such synergies mean that Triarc may be better placed to fix Snapple than others were. Despite its strong national brand, for example, Snapple is saddled with lingering supply contracts set when sales were much higher. The boom-time contracts require the juicemaker to pay tens of millions of dollars for bottles it can't use at current levels of demand. They were one reason that big-time beverage companies passed on Snapple. Also, its distribution system is archaic; Goldman Sachs estimates that it would cost at least \$100 million to buy out its small distributors. But Triarc may be able to use the excess bottles for Mistic and work out better deals with distributors that involve all Triarc's brands.

The price Triarc paid will also give it room to maneuver that Quaker never had. "It would take a lot of work for them to lose money on this deal," says Lloyd Greiff, a Los Angeles investment banker who specializes in mergers and acquisitions in the food industry. Adds Weinstein: "Even if we can get Snapple back to where it was when Quaker bought it, we'll be doing well."

Peltz and May are wasting no time repairing the damage. Weinstein is making the rounds of distributors. "He's telling them, 'You're our family,'" Peltz says. New bottle designs and advertising, set in motion by Quaker, are due out soon. And even some of the old Snapple endorsers, such as Howard Stern, have returned. Now, if only Triarc can bring back Snapple's old-time performance.

By I. Jeanne Dugan in New York



stable of drinks, including Real Brewed Tea, to soak up Snapple's excess capacity.

► Cut costs by jointly managing Snapple with brands such as Mistic, RC Cola, Diet Rite, and Nehi.

► Improve marketing. Already, that has helped boost Mistic sales 10%, even as New Age rivals struggle.





Each and every day, thousands of businesses build their sites on the Internet and wonder: When does the excitement begin? Where are the new customers, the improved relationships, the lower overhead? Surprise, surprise. You can't expect it to happen automatically.

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“yippeee,
were on the
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now what?”
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Solutions for a small planet™

How incompetence and greed undid credit-card insurer SafeCard Services

In 1969, Peter Halmos was a 25-year-old Hungarian emigré with an idea: People would be willing to pay a small annual fee for credit-card protection. If their cards were lost or stolen, they would be insured for any unauthorized charges, and the issuers would be notified to provide replacement cards.

Halmos launched SafeCard Services Inc. that year from the bedroom of his Fort Lauderdale condominium with his brother, Steven. It grew into a tidy little money machine. In 1977, SafeCard went public, and in 1989 it was listed on the New York Stock Exchange. By 1992, the company had 400 employees, 13 million customers, and was generating \$158 million in revenues and \$22 million in earnings. It had a hefty cash reserve of \$170 million and no debt.

But in late 1992, SafeCard's fortunes began changing dramatically for the worse. Halmos, who had stepped down as chief executive in 1987 and as chairman in 1990, departed as a consultant in December, 1992. In the following 3½ years, under new management and directors, the workforce ballooned to 1,200 and the company depleted most of its reserves, losing \$47 million in the first half of 1995 alone. Its stock, by late May of that year, was selling at 7, down 65% from its 1994 high of 20. SafeCard was in such deep trouble by early 1996 that the anxious directors voted to sell the company, then based in Jacksonville, Fla., to CUC International Inc. for \$375 million. CUC quickly shuttered the headquarters and absorbed the company.

Although SafeCard was a small company, its story holds a big lesson for Corporate America. The fall of SafeCard is a cautionary tale of incompetence and greed. It demonstrates how directors and managers with the best of credentials, and their high-powered advisers, can't always be counted on to guard the interests of shareholders. Indeed, some SafeCard directors were benefiting personally from their positions and failed to scrutinize management's ill-conceived projects.

HIGH-POWERED. The main participants were SafeCard Chief Executive Paul G. Kahn, the man behind the much-heralded launch of AT&T's Universal Card in 1990, and a supportive board, which for a time was dominated by Robert L. Dilenschneider, the former CEO of Hill & Knowlton Inc., the public relations concern. "They took something that was built over 23 years and destroyed it in a few years," says Peter Halmos.

Halmos is far from objective. He has 14 lawsuits pending against SafeCard's former management, directors, accountants, and lawyers. In all, he has spent an astonishing \$45 million in a legal vendetta to hold the entire SafeCard team accountable.



ROBERT DILENSCHNEIDER

The former Hill & Knowlton CEO became a SafeCard director—and flourished

Finance

TROUBLE

The latest charges were made on Dec. 5, 1996, when attorneys for shareholders, including Halmos, filed an amended sealed complaint to a 1995 suit in federal district court in Miami. A supporting filing that describes the sealed complaint was made in the Miami court—this time unsealed—on Mar. 31. According to the new filing, and a 400-page background document, the amended complaint contains serious allegations of stock fraud, including racketeering charges under the federal Racketeer-Influenced & Corrupt Organizations Act.

During a three-month investigation, BUSINESS WEEK has examined lawsuits and hundreds of other documents, including internal memos and notes, receipts, stock trading records, research reports, and Securities & Exchange Commission filings.





BUSINESS WEEK also interviewed more than two dozen former employees, directors, and company consultants—most of whom are not for attribution. In addition, BUSINESS WEEK has received two 60-odd-page signed statements by Douglas Spink, 25, was SafeCard's director of financial controls in its information-technology group from September, 1994, to March, 1996. Spink, an MBA from the University of Chicago Graduate School of Business, has also provided his statements to Halmos and is expected to be a key witness in the shareholder litigation.

At the very least, the evidence strongly suggests there was a mismanagement of the company's financial affairs. Some \$10 million was squandered between 1994 and 1996, much of it on new-business ventures and lavish corporate overhead.

PETER HALMOS

"They took something that was built over 23 years and destroyed it," says the founder

The charges made in the shareholder lawsuits, one of which is scheduled for trial on Sept. 2, are more serious. The suits allege that certain officers and directors:

- Leaked information to Wall Street analysts.
- Wildly inflated profit predictions that misled investors.

- Benefited personally from their dealings with the company.
- Used accounting techniques to mask the company's deteriorating condition.

VENDETTA? No former SafeCard employees have been charged by the government with any civil or criminal securities violations. Kahn, interviewed at his Jacksonville (Fla.) office, denied each of the above allegations. He insists that at the time of his ouster in early 1996, SafeCard was back on course to be profitable. "We could have got out of it," Kahn says. He also insists that "I was not alone. The board knew about everything... they set me up for being the fall guy, not that I'm without sin. I was hung out to dry."

Parker D. Thomson, attorney at Thomson Muraro Razook & Hart, represents SafeCard's seven former outside directors. "You are dealing with completely unproven allegations made by one man [Halmos] who has publicly proclaimed litigation warfare against SafeCard Services and everyone connected to SafeCard," he says. Thomson says the charges "have been made with reckless disregard for any truth." Thomson represents William T. Bacon Jr., a former Chicago investment banker, Dilenschneider, Eugene Miller, a former investor relations specialist, Marshall L. Burman, former chairman of the Illinois State Board of Investment, Thomas F. Petway, III, a Jacksonville real estate and insurance businessman, Adam W. Herbert Jr., president of the University of North Florida, and John Ellis "Jeb" Bush. The son of former President George Bush says: "I believe I did my job with focus and intensity. Things the board did helped [SafeCard] return to profitability." Bush and Herbert joined the board in January, 1995.

Without question, the main figure in the SafeCard saga is Peter Halmos.

Since the early '80s, Halmos himself has been the target of an extraordinary number of allegations, including insider trading, enriching himself with SafeCard monies, and using aggressive accounting to boost SafeCard's earnings. BUSINESS WEEK has examined Halmos' disputes with the IRS, the SEC, and shareholder charges of insider trading. Halmos was found to owe no money to the IRS. The SEC investigated SafeCard's accounting but didn't take action. And the shareholders dropped their lawsuit.



PAUL G. KAHN

"The board knew...everything," says the former CEO. "They set me up for being the fall guy"

Halmos is known for relentlessly suing his adversaries. In 1981, he sued *Barron's* columnist Alan Abelson for libel. The suit was thrown out. In 1992, he filed a suit against the IRS, which he later dropped. Halmos plays hardball in other ways. He uses his private investigator to collect damaging evidence about his enemies.

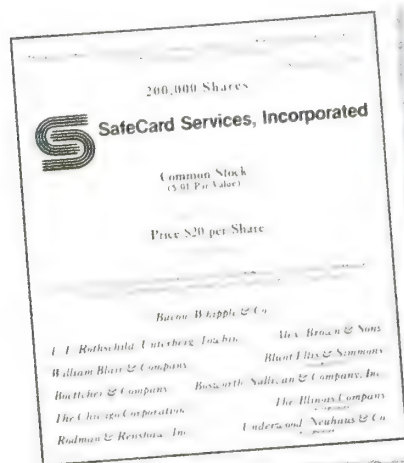
The seeds of the battle between Halmos and SafeCard were

The Rise and Fall of a Company

The story of SafeCard demonstrates how directors and managers with the best of credentials, and their equally blue-chip advisers, can't always be counted on to look out for shareholders.

JUNE 1969

Peter and Steven Halmos found SafeCard.



NOVEMBER 1977

SafeCard goes public. In December 1989 it's listed on the NYSE.



1990

Revenues hit \$134 million. Earnings jump to \$27 million. Peter Halmos steps down as chairman and becomes a consultant.

OCTOBER 1992

Did the SafeCard board receive downbeat earnings projections?

planted in late 1991. Still influential, he decided to hire a top PR person

to repair SafeCard's tarnished image. He chose Dilenschneider, put him on the board, and granted him 100,000 stock options. Steven Halmos, CEO since 1987, agreed.

Dilenschneider became more than just a PR man. As their friendship bloomed, Halmos even reviewed monthly budgets for Dilenschneider's fledgling public relations firm that Dilenschneider formed after resigning as head of Hill & Knowlton in September, 1991. SafeCard became one of the first and biggest clients for Dilenschneider's new PR shop, Dilenschneider Group Inc. (DGI). Dilenschneider declined to comment on the record.

On Oct. 23, 1992, at a SafeCard board meeting, Dilenschneider and Halmos abruptly parted company. It was a critical

time, since the card protection business was mature, and SafeCard faced fierce competition. What happened at that meeting is the subject of considerable dispute. Peter Halmos' version is that an analysis done by the chief operating officer was discussed at the meeting and showed SafeCard heading downhill. Halmos wanted to make the analysis public. But he says the three-man board, comprising his brother, Steven, Bacon, and Dilenschneider, disagreed.

Halmos says the board forced him out in December, 1992, by withdrawing financial benefits they had promised him. At that time, Steven Halmos stepped down as CEO and director but kept a \$2 million-a-year consulting job. The chairman and CEO jobs stayed vacant until December, 1993.

Thomson, the former board's attorney, paints a different picture. "Although earnings projections were made on the basis of various assumptions...there is no single study of the kind you [BW] mention," says Thomson. Bacon and Dilenschneider don't recall a study, says Thomson, and Steven Halmos declined comment. As to whether a downbeat projection was discussed, Thomson declined to comment. He points out that Halmos doesn't have a copy of the projections, nor were they mentioned in the board minutes. And Thomson claims Halmos resigned over a failure to renegotiate his compensation.

Once Peter Halmos was gone, Dilenschneider moved to ce-

DECEMBER 1992

Peter Halmos' tenure as a consultant to SafeCard ends.

JANUARY-DECEMBER 1993

With no CEO and a two-man board, director Robert Dilenschneider (right) fills the vacuum. He brings Eugene Miller on as a director.



ment control of the board, whose only other member was I con. In February, 1993, Dilenschneider arranged for Miller then at DGI, to join the board. Miller had been a senior vice president of the New York Stock Exchange and was an editor at BUSINESS WEEK in the 1950s. He got 100,000 stock options

Dilenschneider also took over Peter Halmos' job as SafeCard's investor relations honcho. In June, 1993, Dilenschneider signed a contract with SafeCard that, in addition to his \$50,000 director's fee, renewed DGI's \$180,000 retainer to handle public relations for that year. On top of that was a \$150,000 retainer for an investor relations contract, according to SEC filings.

INSIDE TIPS? Looking to find a CEO, Dilenschneider and the board hired Paul Kahn, who joined SafeCard on Dec. 7, 1992. Kahn's success at AT&T gave him a dazzling reputation, and SafeCard's stock jumped 2½% when he was hired. But Kahn also had a checkered history. At Wells Fargo & Co. from 1970 to 1985, where he ran the credit-card business, he developed a reputation as a big spender after management investigated a birthday party that was billed as a corporate expense. Kahn dismisses it as a secretarial error.

In 1986, Kahn landed at Mellon Bank Co., where he was laid off after two years. At AT&T, Kahn was so profligate that a former AT&T chairman warned a SafeCard director; recalls another SafeCard director. SafeCard hired him anyway on the recommendation of New York search firm Heidrick & Struggles Inc. Kahn doesn't deny he was a big spender but says that spending always yielded a boost to his employers' profitability. Heidrick & Struggles declined to comment. Kahn received a base salary of \$750,000 and 1 million options that kicked in if the price of SafeCard's stock moved higher.

When Kahn came on board, he and Dilenschneider, Miller and other top SafeCard executives launched a whirlwind of meetings with money managers and Wall Street analysts, according to internal SafeCard records. But according to the shareholder allegations, SafeCard went much further: It disclosed material inside information to analysts. According to one shareholder suit, the information was allegedly leaked in early December, 1993, when Oppenheimer & Co. was tipped by a SafeCard director that Kahn would be appointed CEO. Oppenheimer, denying the charges, says Oppenheimer: "We are vigorously defending the case."

Whether or not Oppenheimer was tipped, it did buy SafeCard stock on Dec. 2 and the next two days, according to NYSE

Finance



DECEMBER 1993

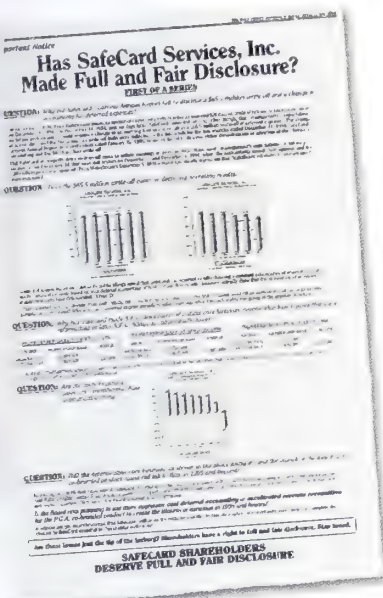
Paul Kahn (left) hired as CEO of SafeCard.

APRIL-JUNE 1994

Kahn gets rid of old SafeCard management team, including Steven Halmos.

1994

er Halmos begins attacking management. He runs full-page ad in *Wall Street Journal* questioning condition of SafeCard's business.



s to me like a violation on both sides."

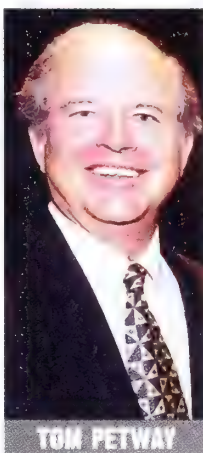
ne analyst who allegedly received inside information was e Munro. Munro operated a tiny research boutique, Monzo Research, in the U.S. Virgin Islands with more than 100 itutional clients. SafeCard allegedly supplied him with pro na profit estimates and information on Kahn's plans in 4, and Munro used it in his research reports.

unro faxed his research reports to SafeCard executives for ew and editing suggestions, according to copies of faxes of ro's draft research report obtained by BUSINESS WEEK. se reports went to clients. Kahn adamantly denies ever ha- given anyone inside information. "Did I look at Clive ro's reports? I absolutely did. I offered directional guidance, specific numbers," says Kahn. Munro denies receiving inside rmation. "If I had inside information, I would have en- gaged my clients to sell," he says.

HOLIC CARD. By mid-1994, Kahn had pushed out the hand- of senior SafeCard employees and brought on three new di- ors: Petway in April, 1994, and Bush and Herbert in Jan- y, 1995. Kahn then went on a spending spree. Life at eCard now included travel by corporate jet and limous- s, lavish receptions, and expensive art, according to in- al company memos and interviews with former SafeCard oyees. Says Kahn: "I wanted to change the image of eCard. It was a calculated risk, and this time I lost." m added layers of management and consultants, including

APRIL-DECEMBER 1994

Kahn brings in own management and three directors, including Tom Petway, and Jeb Bush in January '95.



TOM PETWAY



JEB BUSH

trading records, accounting for an average of 75% of SafeCard trading volume on the three trading days prior to the Dec. 7 announcement of Kahn's appointment. If information was leaked, says Alan R. Bromberg, professor of securities and corporate law at Southern Meth-

odist University Law School, "it

many friends, relatives, and former associates and their wives.

Dilenschneider shared in the new era of easy spending. In 1994, SafeCard struck an \$11 million, three-year deal with Museum Art Properties Inc., a company 10% owned by Dilenschneider, then located a floor above DGI's Manhattan offices. MAP developed a catalog for SafeCard to market reproductions from the Vatican Museum, such as crystal rosary beads and Sistine chapel "fragments," which MAP supplied to SafeCard. The contract was disclosed in SafeCard's SEC filings. Kahn admits the deal was rich but says he thought it would help him secure the rights from the Vatican to his next big brainstorm: a Catholic credit card.

One software company, Image Consulting Group Inc. in Phoenix, was paid more than \$1 million in a five-month period in 1995 to work on a new product, the Family Protection Network (FPN). ICG was co-owned by Dilenschneider's nephew, John Dilenschneider. Thomson says that Robert Dilenschneider didn't know about it and, because John was not immediate family, disclosure was unnecessary. Observers say ICG was a qualified contractor. John Dilenschneider says ICG got the job "for business reasons, not relationship reasons."

Petway was another director who benefited from his SafeCard ties. He was a one-third owner of Prudential Network Realty, a well-regarded local firm. PNR was recommended by SafeCard to handle the sale and purchase of homes for SafeCard employees, say two former SafeCard employees.

According to Thomson, Petway's attorney, PNR handled 51 transactions involving SafeCard employees as buyers or sellers from about 1993 to 1995. The commissions earned by PNR were approximately \$154,000, plus \$20,000 in referral fees, says Thomson. "SafeCard reviewed these transactions at the time and determined disclosure in its public filings was neither necessary, required, nor appropriate," he says. But a former Safecard employee says PNR handled 100 SafeCard employees relocating to Jacksonville. If that is correct, PNR would have earned more than \$300,000.

Kahn was spouting increasingly rosy forecasts for revenue growth from new products and acquisitions. In a June, 1994, *Wall Street Journal* article, Kahn raised his estimate of 20% compounded annual growth over the next several years to 30% growth for 1995. Then in September, 1994, Kahn told analysts in a private conference call to expect 45% growth in the next few years, according to a transcript of the teleconference.

SEPTEMBER 1994

Kahn promises 45% revenue growth in the next few years, up from his earlier estimate of 20%.

NOVEMBER 1994

Dilenschneider gets Museum Art Properties contract from SafeCard.

DECEMBER 1994

SafeCard changes to a calendar year, creating a stub period in which it would later write off \$65 million pretax and some \$45 million aftertax.

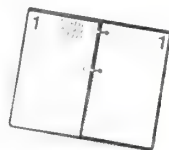


TABLE CONTINUES ►

MARCH 1995

SafeCard begins marketing Vatican artwork reproductions and launches PGA Tour credit card.



APRIL 1995

SafeCard starts Family Protection Network.

APRIL 1995

At annual meeting, management fails to disclose that the new



Ideon

products are falling far short of its expectations. Shareholders approve Ideon Exchange offer.

MAY 1995

Company announces that response to PGA Tour card and FPN is "significantly lower than expected." Stock drops 44%.

TABLE CONTINUES ►

In retrospect, Kahn's forecasts looked like pie in the sky. For one

thing, SafeCard reported only a \$20 million profit for the fiscal year ended Oct. 31, 1994, down 36% from 1993. SafeCard's overhead had expanded 72%, to \$43 million. Even worse, despite spending \$200 million on marketing in 1993 and 1994, the company could no longer add enough new members to fully offset the annual 25% loss in its 13 million membership base.

More disturbing, the \$20 million profit was a fiction. SafeCard was amortizing the marketing costs of acquiring new subscribers over a 10-year period. But because it was losing customers and had begun to spend on marketing to retain them, SafeCard could no longer justify stretching the amortization out that long. This meant that the company needed to write down the deferred subscriber acquisition costs of \$195 million over a

Finance

much shorter period, according to an accounting expert. Indeed, a March, 1995, letter from the SEC shows that the agency had been corresponding with SafeCard about shortening the amortization period in April, 1994.

ACCOUNTING TRICKS? SafeCard in a press release issued on Dec. 14, 1994, said that it was considering changing the amortization period, which would result in an aftertax charge of about \$45 million (about \$65 million before taxes). On Dec. 22, it filed the same information in an 8-K with the SEC. If the company had taken the hit in its normal 1994 fiscal year, ended Oct. 31, it would have shown a \$25 million loss—not a \$20 million profit. But SafeCard would use a clever technique to record the write-off. It said that it was moving the end of its fiscal year from Oct. 31 to Dec. 31. This created a "stub" period, a two-month black hole that was not part of 1994 or 1995.

And indeed, on Jan. 25, 1995, the company announced that a \$65 million pretax charge from the change would be recorded in this two-month transition period. But only six days before, on Jan. 19, SafeCard had filed a 10-K with the SEC detailing its results for the fiscal year ended Oct. 31, 1994—without taking the write-off. Is it likely that the company knew on Jan. 19 that it would be making the change? If it did know, why didn't it include the \$65 million charge in the 10-K? "You have to ask yourself, who knew what when," says Abe Mastbaum, senior

A NEW COMPANY THAT DREAMS OF THE DAY IT WILL GO OUT OF BUSINESS.

The new, insured Family Protection Network (FPN) was launched on April 11. In addition, the Family Protection Network will offer a new product, the Family Protection Network (FPN) credit card, which will be available to members of the FPN.

The FPN credit card is a new product that will be available to members of the FPN. The card will be issued by the FPN and will be used to pay for FPN services. The card will be valid for one year and will be subject to the FPN's terms and conditions.

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THE FAMILY PROTECTION NETWORK

vice-president of American Securities LP and an accounting expert. The company's annual report sent to shareholders in February, 1995, dated Jan. 25, made no mention of either change. The company, in a Feb. 9 press release, reported a loss of \$49.9 million for the two-month period and filed a 10-Q reporting the loss on Feb. 13.

SafeCard's accountants say that "Price Waterhouse LLP conducted its work for SafeCard Services Inc. according to the highest professional standards and stands behind its work without reservation." Mahoney, Adams & Criser, the Jacksonville (Fla.) law firm that was SafeCard's principal counsel, says "the allegations that Mahoney Adams engaged in wrongdoing are false and are categorically rejected."

The stub technique only postponed public knowledge about the inevitable deterioration of the core business. SafeCard needed profits—and fast. In late 1994, Kahn began pushing for new products. The first was a credit card geared to golfers. Card members linked with the PGA Tour Partners, a golf organization, would get a variety of golf-related perks, such as access to PGA Tour events. Kahn's goal as of January, 1995, was to start in March, 1995, with 80,000 members, quickly expanding the number to 500,000 and to 1 million.

The second new product—the Family Protection Network—was, to be kind, bizarre. For \$250 per year, parents could register information about their children with SafeCard. If a child was reported missing, a SafeCard SWAT team of ex-military and law enforcement experts would be dispatched forthwith in search for the child. No cost would be spared: An FPN press release promised "search dogs... police artists... and even helicopters with thermographic capability."

The company spent about \$100 million and hired more than 300 employees to launch the ventures, according to financial filings and company records. But within a few months, it was clear both ventures would be spectacular failures. The first marketing for the golf card went out in mid-March, 1995. By April, fewer than 5,000 people had enrolled, and they charged on \$193,025. In March, 1995, the company had budgeted, through the end of April, 174,000 customers with credit-card charges of \$19 million, according to internal company reports and Spin.

FPN was an even bigger dud. Starting on April 10, 1995, and ending on April 27, SafeCard mailed 1.2 million solicitation letters. On May 8, an additional 960,000 were mailed out, supported by print and TV advertising. The result: By May 16, only 3,525 e-

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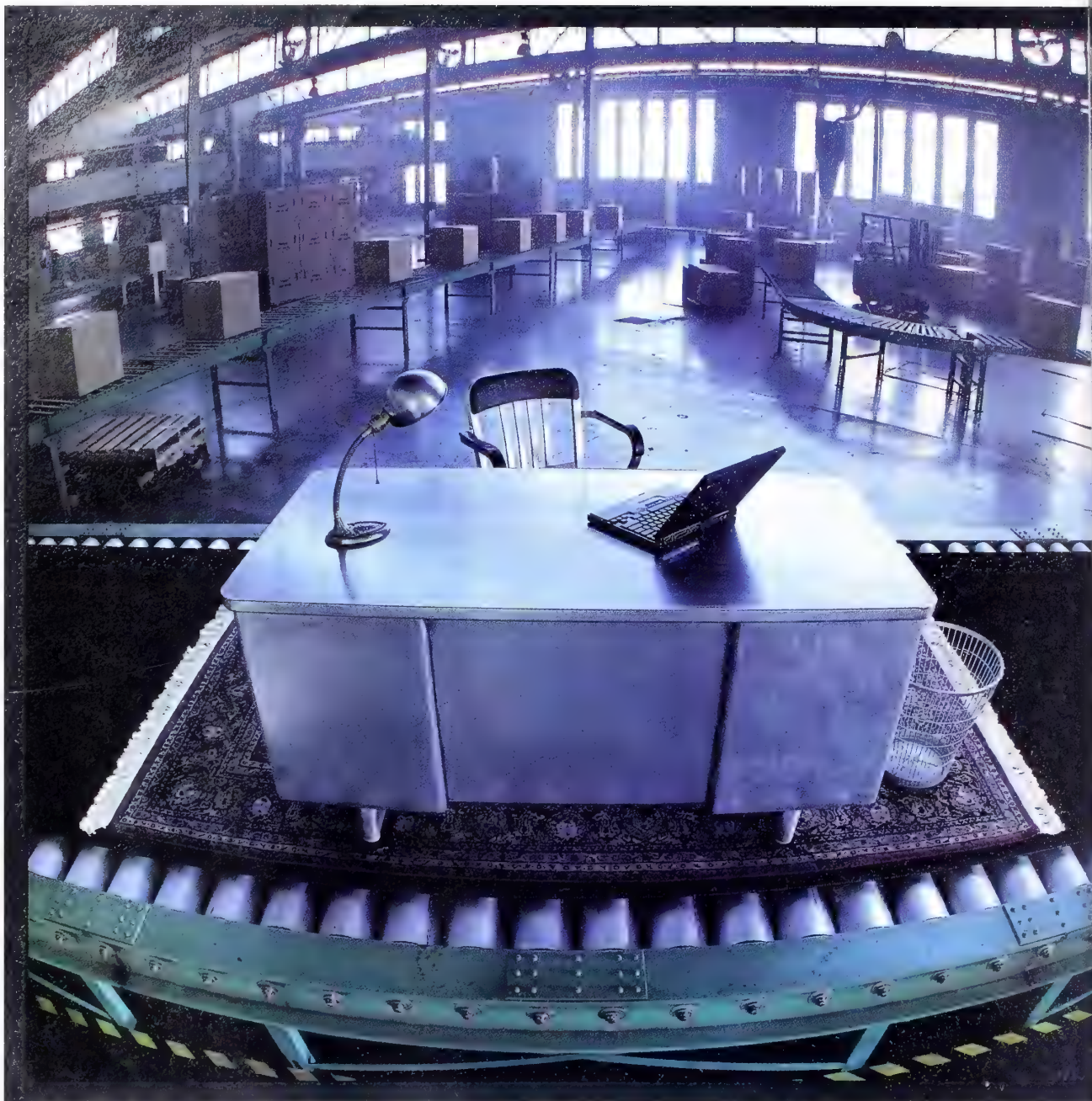
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JULY 1995

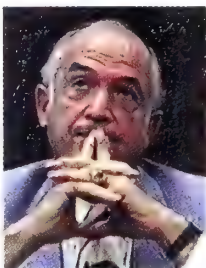
Company announces it is discontinuing FPN and scaling back PGA Tour card. Dilenschneider and Miller form board committee that takes over management control of the company.

SEPTEMBER 1995

Halmos begins soliciting CUC International to acquire SafeCard.

DECEMBER 1995

SafeCard posts a \$4.7 million profit for fourth quarter ended Dec. 31, 1995, by reversing some second- and third-quarter write-offs, alleges shareholder suit.



**EUGENE MILLER,
FORMER SAFECARD
DIRECTOR**



**FOR
SALE**

JANUARY 1996

SafeCard hires Lazard Frères & Co to shop the company.

FEBRUARY 1996

Board ousts Kahn, paying severance of \$2.3 million.

MARCH 1996

CUC announces agreement to buy company for \$375 million. Sets up a \$125 million reserve to settle Halmos and class-action litigation.

AUGUST 1996

CUC completes purchase of SafeCard.



rollment kits were requested from the company, and only 14 people ponied up the \$250. Total revenue: \$3,500.

In contrast to these results, at an Apr. 11 conference call with investors and analysts, Kahn told analysts that FPN would exceed a 20% aftertax return and 1995 earnings would be 60¢ to 80¢ a share. Spink, who was responsible for compiling daily computer reports to senior management for the PGA Tour and FPN projects, says he talked to Kahn almost daily beginning on Apr. 20, 1995, and warned him FPN was bombing. By Apr. 25, only 286 people had sought enrollment information, and FPN didn't have a single paying customer, according to internal records. "It was a known, irrevocable certainty within the company at the time of the Apr. 27, 1995, annual meeting that the company would report massive losses for 1995 due to the complete failure of the PGA Tour and FPN business launches," says Spink.

At an Apr. 27 annual meeting, however, Kahn glossed over the PGA Tour and FPN products. Even hinting at the probable debacle of its highly publicized new products at the meeting could have derailed SafeCard's plans. It was asking shareholders to approve an exchange offer that would allow it to vastly expand by issuing new stock for acquisitions and to change its name to Ideon Group Inc.

Kahn denies that he withheld bad news from shareholders or that he talked to Spink daily. He says it wasn't until much later that he knew of FPN and PGA Tour's woes. "Why should I stand up at a public meeting saying it's great if it wasn't?" says Kahn. As for the issue of what the directors knew, Thomson says: "The directors did not have access to that information."

The exchange offer was approved overwhelmingly. But on May 24, SafeCard's stock began to plunge. The company issued a press release on May 25, stating that its earnings projections "will not be achieved." By May 26, SafeCard was down 44% for the week, its shares closing at 7%.

With the company in a downward spiral, some board members became concerned about legal liability and wanted out, say two directors. The company's cash was dwindling fast, dropping to less than \$50 million in the fall of 1995, says Kahn. FPN was shut down in June, 1995, and in September, PGA Tour was taken over by SunTrust Banks Inc. The Vatican project was ended in mid-1996. The two dismal failures, plus the Vatican project, racked up \$95 million in operating losses for 1994 and 1995.

On Feb. 6, 1996, Kahn was ousted with a severance package.

SafeCard had officially put itself on the block on Jan. 2, 1996, when it retained Lazard Frères & Co. In fact, the board had been looking for a buyer since the fall of 1995. Also trying to sell the company were Halmos and some SafeCard shareholders. In September, 1995, they approached SafeCard's chief competitor, CUC International, a Stamford (Conn.) direct marketing giant with \$1 billion in sales. SafeCard, after all, boasted 12 million customers.

STOCK SWAP. At the same time, SafeCard reported \$4.7 million in profits for the fourth quarter of 1995. But one charge in the Mar. 31 filing is that SafeCard used fraudulent accounting to do so. SafeCard wrote off \$45 million for the first nine months of 1995 for restructuring costs associated with the new-product debacle. Some of the write-offs were legitimate, Spink says. Billions of dollars were for lease payments, equipment still in use, and salaries of people who still worked for the company, which should not be written off under generally accepted accounting rules, says Spink. Then, SafeCard allegedly reversed some of the write-offs and booked the excess as income.

Moreover, says Spink, ongoing operational costs in the fourth quarter, including salaries for current employees, were put into the restructuring reserves, thus reducing current expenses. Spink says he told his superiors and Price Waterhouse that the reserves were improper, but they ignored him. CUC says: "We have no reason to believe that any questionable accounting occurred." Price Waterhouse stands by its work.

On Apr. 17, 1996, CUC announced a deal to buy SafeCard in a stock swap valued at \$13.50 per share. SafeCard directors gave up what they wanted in order to put SafeCard behind them: immunity from lawsuits. Dilenschneider alone made \$450,000 by exercising his options.

The SafeCard story is not over. CUC CEO Walter A. Forbes and Halmos reached a handshake agreement in January, 1996, to settle Halmos' suits against SafeCard, says Halmos. Years of negotiations between Forbes and Halmos have been fruitless. CUC set aside \$125 million in 1996 to cover SafeCard litigation. If the negotiations don't pan out, Halmos will get his day in court on Sept. 2. Then it will be up to a jury to decide if SafeCard's CEO, directors, and their advisers caused the downfall of what was once a cash cow.

By Michael Schroeder in Washington and Leah Nathan Spiro in New York

Finance

GENE G. MARCIAL

WHAT BROKERS ARE THE BANKS AFTER?

George Salem is an analyst who predicted a number of the big bank mergers. Salem is still watching the banks, but this time he sees them not as targets but as suitors. Now at New York investment bank Gerard Klauer Hutton, Salem says many commercial banks have investment banks and brokerages "high on their acquisition list." Banks must move quickly or risk being shut out of this line of business, especially the booming market for initial public offerings.

With the recent deals between Morgan Stanley and Dean Witter Discover, and between Bankers Trust and Alex. Brown, securities firms are now "heavily in play," notes Salem. At the top of Salem's picks of brokers he thinks are compelling takeovers: Lehman Brothers Holdings (LEH) and Donaldson, Lufkin & Jenrette (DLJ).

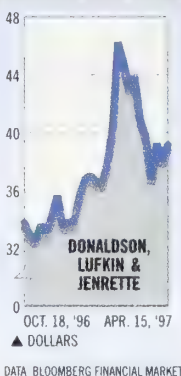
Rumors have swirled that Lehman will be the next prey. When Lehman was first mentioned in this column as a target (BW—Sept. 30), the stock was \$21. It has since reached \$32, after hitting a high of \$37 in mid-February. In the takeover, Lehman is worth \$45, analysts figure. Who's stalking Lehman?

Salem thinks the most likely buyer is Chase Manhattan. Lehman is a nice fit for Chase, says Salem, because of Lehman's prowess in raising capital through securities underwriting, merchant banking, asset management, and trading. These are fields where Chase needs help, he adds. Also rumored to be interested in Lehman is J.P. Morgan.

Salem, however, puts a low probability on that happening. He thinks that J.P. Morgan's target will be Donaldson, an integrated investment and merchant bank whose skill and competence in equity underwriting and junk-bond operations are its most attractive assets. Donaldson

shares spiked up from 37 a share in early February to 47 by mid-February and then slumped back down to 37 when the disappointment set in—as the prospect of being taken over seemed to fade from the picture. In recent days, the stock has moved up again, to nearly 39. In a buyout, analysts figure Donaldson is worth about 50.

J.P. MORGAN MAY PAY A CALL



SPARKLERS IN THE NAMIBIAN SEABED

Who loves diamonds? The Street gave a tepid response to Namibian Minerals (NMCOF), a prospector for diamonds off the coast of South Africa and Namibia. On Apr. 1, the stock opened on the NASDAQ at 4 a share—and has scarcely budged. Part of the problem: The Bre-X scandal in Indonesia has spread fear about government mining contracts. As a result, investors have gone sour on mining issues.

But some pros see potential. "This is the time to buy, before Namibian starts mining in September," says a New York money manager. Namibia's government granted the company a 15-year license to mine some of the estimated 2.9 million carats of diamonds lying in the seabed. "This tiny London company is a pure play in diamonds and their huge earnings-growth potential."

In its initial exploration, Namibian identified 3 million carats that are 95% gem quality, valued at \$200 per carat. De Beers Consolidated Mines, of South Africa, is the only other company licensed—and already mining—in the region. In 1996, De Beers recovered 650,000 carats, worth \$340 per carat.

"The concession areas are in close proximity to areas of historic offshore diamond production by De Beers and Ocean Diamond Mining Holdings," notes analyst Jonathan Challis of Ivanhoe Capital, in London. Challis says Namibian is trying to secure a number of projects in Angola, which contains some 12% of the world's gem deposits. Namibian already has acquired a 42.5% stake in three diamond concessions in

Angola and also has licenses in Zaire.

A Dresser Industries subsidiary, Subsea Offshore, which owns the "largest and most sophisticated remote-controlled underwater vehicle fleet in the world," is developing an underwater mining system for Namibian, says Alastair Holberton, CEO of Namibian.

"Next year will be our first full year of production," he says. Holberton expects revenues of \$33 million and a loss of \$10 million. "De Beers has already approached us with an offer to buy the diamonds we can produce."

WHEN INSIDERS BAIL OUT

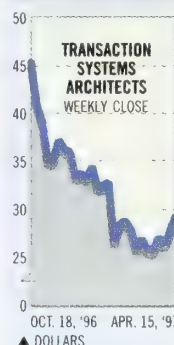
Insider selling can be hazardous to a stock. At Transaction Systems Architects (TSAI), the price suffered when initial venture-capital investors sold 800,000 shares in February—after the expiration of the three-year no-selling period. The stock tumbled from 46 to 26. Transaction Systems makes software to process transactions involving credit and debit cards, checks, and automated teller machines.

Its stock has edged up to 29 as buyers stepped in. The management team, however, didn't sell. In fact, some officers bought options for a further 1 million shares, vesting in four years. "That indicates confidence in the business," notes Goldman Sachs analyst Gregory Gould.

Transaction is a direct beneficiary, he explains, of the shift toward electronic forms of commerce. It benefits from any electronic request for cash, whether it's from an ATM or a debit terminal. Gould says the company is a leader in a growth business: ATM transactions are expected to grow 15% to 20% worldwide over the next few years. The use of debit cards is expected to jump 30% to 50%, and credit cards about 155%, he notes.

Gould figures Transaction will earn 75¢ a share for the year ending Sept. 30, 1997, and 95¢ in 1998, vs. last year's 59¢. His target for the price: 38 in a year, based on a 30% growth rate.

A SPOT TO PICK UP CASH?



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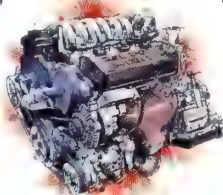
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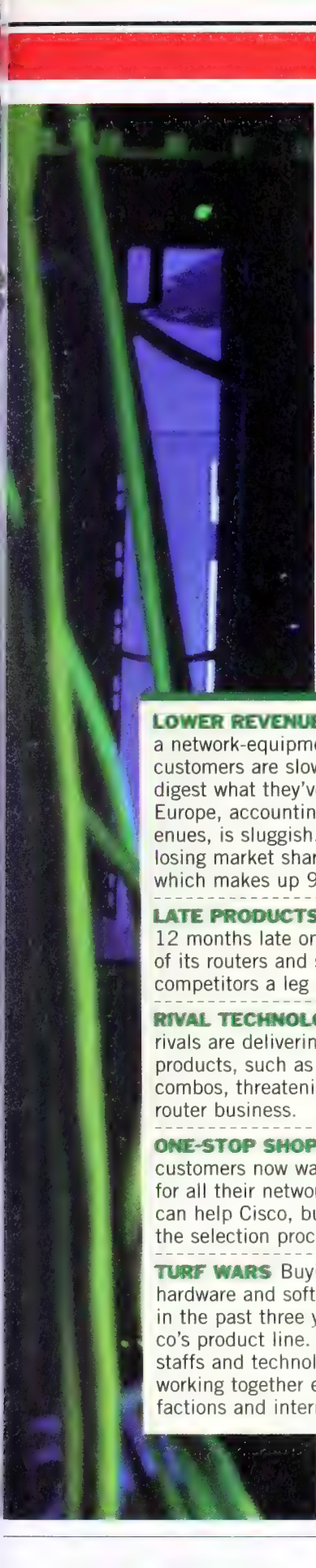
Stratus  The New Dodge

CISCO

CRUNCH TIME FOR A HIGH- TECH WIZ



CEO CHAMBERS AIMS AT
FAST-GROWTH MARKETS
SUCH AS HOME OFFICES



It's still the king of networking, but now the field has turned brutal

It's the stuff of nightmares for John T. Chambers, CEO of networking giant Cisco Systems Inc. When longtime customer Apex Global Information Services, the nation's fourth-largest carrier of Internet traffic, decided to beef up its equipment, it looked over Cisco's products last year and found they just weren't fast enough. So AGIS, in Dearborn, Mich., spent \$10 million on equipment from two rivals. "We needed something that could move the bits fast," says AGIS President Phil Lawlor.

Ouch. For more than a decade, Cisco has prided itself on making the best products for moving trillions of bits per

company supplies 85% of the Internet's so-called routers, the plumbing that directs data across the Web. That has made it the undisputed king of networking equipment and one of the trika that sets the industry's agenda: Cisco is to the Information Highway what Microsoft Corp. is to software and Intel Corp. is to computer chips.

The stock had been no less amazing. Its fivefold increase since 1993, from 9% to 50, has pushed Cisco's market capitalization to \$32 billion, making it the third-largest on the technology-rich NASDAQ exchange, right behind Intel and Microsoft. Says analyst Luke T. Szymczak of Prudential Securities Inc.: "Pick your favorite multinational, and Cisco's growth rates look astonishing by comparison."

NEW GORILLAS. But now, Cisco is earth-bound. In the past few months Cisco, the seemingly unstoppable growth engine, has begun to sputter. Its routers are running out of gas, and it's late to market with crucial new products that would help Cisco keep up with the pack. Experts say quarter-by-quarter sales growth is slowing to the lowest level in the company's 13-year history. And now, Cisco faces a battery of scrappy challengers that threaten the very heart of its networking business.

In just the past two months, Cisco ceased being the only 800-pound gorilla in networking. The proposed \$6.3 billion merger of networking supplier 3Com Corp. and modem king U.S. Robotics Corp. would create a rival nearly as big as Cisco—and with a broader product line. The Mar. 30 announcement of the \$3 billion merger of two other Cisco rivals, Ascend Communications Inc. and Cascade Communications Corp., will pose formidable competition in the fast-growing Internet equipment market.

Cisco's travails don't stop there. Just as the competition is bulking up, the company's delay in delivering speedier routers is giving nimbler rivals a chance to pick off customers. To Cisco's dismay, AGIS isn't the only Internet carrier switching to gear from such competitors as Ascend and Cascade—add MCI Communications, UUNET, and Savvis Communications. "Cisco," says analyst Don Miller of Dataquest Inc., "has been caught napping in development."

All this, mind you, looms over Cisco just as networking technology is going through a sweeping change. For years, routers have been the mainstay of networking. These VCR-size boxes, costing anywhere from \$1,000 to \$100,000 or more, translate chunks of data among a dozen networking languages so they can

LOWER REVENUE GROWTH After a network-equipment buying spree, customers are slowing purchases to digest what they've bought. Europe, accounting for 29% of revenues, is sluggish. And Cisco is losing market share in Japan, which makes up 9% of sales.

LATE PRODUCTS Cisco is up to 12 months late on major upgrades of its routers and switches, giving competitors a leg up.

RIVAL TECHNOLOGIES Nimble rivals are delivering innovative products, such as router-switch combos, threatening Cisco's core router business.

ONE-STOP SHOPPING Many big customers now want one supplier for all their networking gear. That can help Cisco, but it drags out the selection process.

TURF WARS Buying 15 network hardware and software companies in the past three years boosted Cisco's product line. But disparate staffs and technologies are not working together enough, creating factions and internal disputes.

CISCO'S MANY CHALLENGES

day over the Internet and corporate networks. Thanks to Chambers' seemingly flawless management, slick salesmanship, and a scorching series of acquisitions—15 companies snapped up in the past three years—Cisco has gone from relative obscurity to computer industry stardom. But bad news like the AGIS deal is starting to pile up on Cisco, and Wall Street is losing its taste for the stock. After peaking at 75% on Jan. 21, Cisco shares have fallen 34%, including a gut-wrenching 6% on Apr. 15.

Until now, though, Cisco has been on an amazing upward trajectory. Since 1993, its sales have grown an average 80% a year, to \$4.1 billion in 1996, with earnings doubling last year, to \$913 million. Today, the Silicon Valley



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be whisked along the wires. And routers are smart. They examine each piece of data before figuring out the best way to get it to its destination, much like an air-traffic controller guiding jumbo jets to different runways. But now, less expensive devices, known as switches, are gaining popularity. Switches don't take the time to examine data, and instead zip info along 5 to 10 times faster than routers. It's like the difference between an operator-assisted call (routers) and direct dialing (switches).

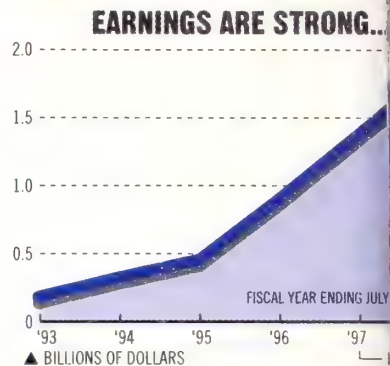
UNLIKELY TRANSPLANT. That could eat into Cisco's biggest franchise. Aware of the danger, Cisco bought up a handful of switching companies and took the lead in that \$6.6 billion market last year. But its 26% share in switches is nowhere near as big or as defensible as its 58% share of the router market, where its next-biggest rival, Bay Networks Inc., has just a 13% share. "The good news is that Cisco owns the largest share in routing," says Tam Dell'Oro, president of market researcher Dell'Oro Group in Portola Valley, Calif. "The bad news is the market is shifting away from routing."

Sales may already be slipping from

their heady rates of growth. On May 6, analysts expect Cisco will report quarterly results that show revenues rising 52% over the same period a year ago. Sounds good, except that in the past three years, sales shot up 76% to 92% this quarter. What's more, growth over the January quarter will be a meager 5%, vs. earlier sequential jumps of 9% to 19%. For the year, Prudential Securities predicts sales will be up 59%, to \$6.5 billion—still strong, but a significant drop from the 80% rates of the past.

Suddenly, the question is: Can Chambers keep Cisco on top? An unlikely transplant from industry stalwarts IBM and Wang Laboratories Inc., he has adroitly bought his way out of past potential jams and into a leading position through one acquisition after another. This year, in fact, Chambers says he will add another 8 to 12 companies to Cisco's armada. But there are few biggies left to buy, and experts question whether this tactic will be enough. "Cisco

ON A ROLLER COASTER



co is like a great white shark," says Michael Zadikian, a former Cisco manager who is now a vice-president at networking startup Sourcecom Corp. "But there aren't a lot of big chunks of meat floating around to feed on. And there are a lot of little sharks gathering around to attack it."

Chambers doesn't see it this way. He blames the slowdown, in part, on things he can't control, such as the strong dollar and weak economies in Japan and Europe—regions that accounted for 38%

NETSPEAK FOR DUMMIES

Network nerds don't talk like other people—or even like other computer nerds. Spend an afternoon with your data communications guru, and before long you'll be hearing about protocols, the physical layer, latency, link redundancy, and gigabit God-knows-what. To get a grip on all this, it helps to have a PhD in computer science. But if you just want to know how your E-mail gets from point A to point B, it's not all that complicated.

Start with the local-area network (LAN) in your office. More likely than not, you're using a standard configuration called Ethernet, which was developed at Xerox' Palo Alto Research Center in the early 1970s. About 100 million Ethernet "nodes" have been installed worldwide. And they all use the same tricks to move bits of data.

TRAFFIC COP. To communicate, computers on an Ethernet network break messages into bite-size "packets" and attach information identifying the sender and the destination. Then they zip the packets to other computers over copper

wires, optical fiber, or less frequently, wireless networks. Network processors called hubs and switches play traffic cop, monitoring addresses so the packets arrive and get reassembled at the right destination and in the right order so that the message isn't scrambled.

It doesn't matter whether the mes-

to collide with each other. How do they do that? In the past, each computer on the network would listen for traffic and wait until the coast was clear—as a party line—before issuing its packets. Now, with new switching technology, it's as if each PC has its own phone line.

FOUR NETWORK SECTORS TO WATCH



ROUTERS Cisco is tops in these devices, which move data across disparate networks. Bay Networks is a distant No. 2,

with about 13% of the market. But this year, **Ascend** could come on strong with routers that ease congestion on the Internet.



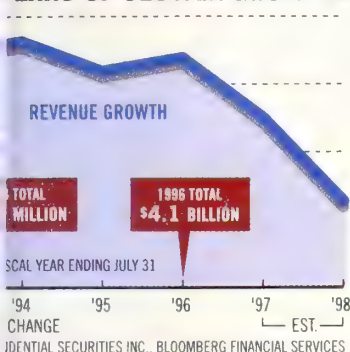
HUBS For years these junctions where PCs are connected on a network were the heart of local networks (LANs).

a mainstay for **Bay Networks** and **3Com**. Now, hubs are giving way to switches based on the Ethernet standard for linking computer gear.

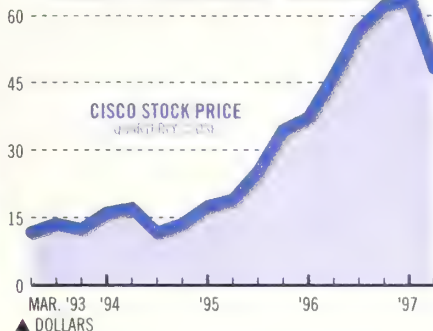
sage is E-mail, a command to print a document, or a request for information in a database. They all get chopped into packets and sent out in bursts to avoid tying up too much space on the LAN. All these packets speed across the same wires at up to 100 million bits per second, and manage, most of the time, not

This technique, however, only works over short hops around an office. To tend the network across town or to other city, many companies rely on "wide-area network" technology called frame relay, which picks up packets from a local-area network and switches them across special high-speed links.

YEARS OF SLOWER GROWTH...



...HAVE PUMMELED SHARES



Cisco's 1996 sales. But analysts also see a softening in the networking sector as buyers pause to digest the tens of billions spent on gear over the past decade of years. Networking players such as 3Com, Cascade, and Fore, for example, have already announced disappointing earnings. That's caused a brutal sell-off in networking stocks. Cisco was part of the carnage: it's now trading at around 10 times projected 1997 earnings, vs. 15 times earnings back in January. For Chambers' part, if his easygoing

demeanor and soft West Virginia draw are any indication, he isn't sweating the mounting challenges. "Even in our best years over the last six years," he says, "we've had one and sometimes two quarters where the growth rate was in single digits." He acknowledges the networking business is slowing, but Cisco is already adjusting by cutting spending: Instead of hiring 350 new employees a month—which it has done for the past 20 months—Chambers is now adding 150 a month. Even so, he is optimistic,

expecting the networking equipment industry to grow 30% to 50% annually over the next few years. And while Cisco's sheer size makes it tough to outpace smaller rivals, Chambers expects good times ahead. "We aim to be a leader in every sector of the industry," he says.

How? Chambers has a twofold game plan. Instead of a structure that revolves around product groups, such as high-end routers, Chambers is refashioning Cisco's business units to target customer segments, such as Internet service providers and consumers. He also plans to go after fast-growth markets—specifically, the small-business and home-office sectors. Sales of low-end routers aimed at these customers are expected to jump 61% this year, to \$2.6 billion, according to the Dell'Oro Group. That's far better growth than the 31% forecast for midrange and high-end routers, Cisco's bread and butter.

Chambers has already proved this strategy can work. Consider the market for devices that allow traveling PC users to dial into the Net and company networks. Sales of these products grew 156% in 1996, but Cisco didn't enter this

market 10 times faster than conventional modems. Others, including Internet service providers, have pioneered a newer digital switching technology called asynchronous transfer mode (ATM). It's even quicker and can run as long as 622 megabits per second—10 times faster than frame relay. A combination of Ethernet and ATM-area switches is powerful enough to blast your message from New York to Bombay. But these devices

dress, and zip code," says Dataquest Inc. analyst Don Miller.

Switches have their own form of intelligence. They are able to establish so-called virtual circuits, or direct links, that speed delivery of streams of data. "A switch actually builds a connection between two points," says Christopher H. Baum, managing analyst at Datapro Information Services Group in Delran, N.J. "A router, in contrast, runs everything across the same backbone."

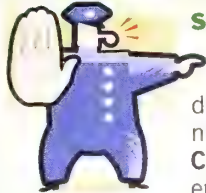
cane computer languages, known as protocols, with names such as IPX, DECnet, and TCP/IP. But TCP/IP, also called the Internet Protocol, has become the language of choice. The result: more packets carry a TCP/IP address and don't need insanely smart routers of the sort Cisco builds to reach their destinations. All that's needed is a switch, made smarter with router software.

WIRED. Expect hybrids that are part switch, part router. But don't get distracted by what to call them, advises Datapro's Baum. They simply seek to make the network smarter. Without more intelligence, he says, "it's as though the postman is dropping a big sack of mail at the end of your street, and telling you to sort it yourself."

All of which brings us back to the physical layer that delights network nerds. The phrase describes technical specifications for wires and optic fiber. And there are six other layers on top of that one, with names such as link, transport, and session. The beauty is, you don't need to understand anything about these layers. (There won't be a quiz.) Like the U.S. mail, you just want to make sure that neither network brownout nor broken cables nor any other digital disaster will stop your data from reaching their destination.

By Neil Gross in New York

REMOTE ACCESS DEVICES Ascend pioneered these giant modem banks, which link home PC users to their office networks and to their service providers. But 3Com's purchase of U. S. Robotics put it up neck and neck. Cisco is in this important niche.



SWITCHES Expect chaos with these devices, which direct traffic across networks. In LANs, Cisco faces newcomers Compaq and Intel.

Some 20 vendors are after Gigabit Ethernet. In global networks, Cisco will be up against Newbridge, Cascade, and Lucent Technologies.

smart enough to steer the message through disparate computer networks the way to your colleague's desk requires a more sophisticated piece of equipment known as a router. The Ethernet switch may deliver data on the LAN, "the router knows the equivalent of the city, street ad-

This distinction between routers and switches is important now, but may not be in another year or two. Thanks to new standards, and the overwhelming popularity of the Internet, switches and routers are beginning to converge. Until recently, information has been transported over networks in a variety of ar-

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hot arena until that June. Yet within three months, the company shipped more than \$50 million worth of products, largely by selling into its huge customer base. "We have been in a very fast sprint," says Chambers, "and we just outdistanced everybody, and broke their hearts, and their minds, and their bodies."

Such talk is quintessential Chambers. The 47-year-old is a hard-charging salesperson who stepped up to CEO in 1995, replacing John P. Morgridge, who has stayed on as chairman. Chambers joined Cisco in 1991 and rose to the top

job after a two-year stint as executive vice-president. Trim, with thinning blonde hair, he is competitive to the core. Even exercise is a test. "I try to set goals and never stop short—even in jogging," says Chambers, who runs as much as five miles, four times a week.

By any measure, Chambers is more businessman than technologist. The son of two West Virginia doctors, he decided while still a student in college that he wanted to run his own company. To prepare, he earned two degrees at West Virginia University, in business and law. "I'd always felt that understanding the law would be an integral part of a chief executive's skill set."

What he didn't figure was that technology would be so key. While Chambers is known for quick, decisive action, he is far from being Cisco's technical visionary. That role falls to Edward R. Kozel, 41, who joined Cisco eight years ago after stints at Boeing Co. and research firm SRI International. When it comes to a decision about which microprocessor to use in its routers, Chambers doesn't fuss so long as a decision is made quickly. "The joke used to be he couldn't tell a router from a toaster," says a Cisco exec, who left the company last year to help launch a startup. "He's a sales guy through and through."

SOOTHING WORDS. There are times when that pays off handsomely. Take the \$4 billion takeover of StrataCom Corp., a maker of data gear for telephone companies. On Apr. 22, 1996, senior execs of StrataCom were trying to close a multimillion-dollar order with executives from a Midwestern telephone company. Suddenly, news of the acquisition broke, spooking the phone executives, who asked to speak to Chambers. A phone call was set for 15 minutes later—but a

half-hour passed with no call. Just then, Chambers marched into the room, having jumped in his Lexus to drive the 10 miles from Cisco's San Jose (Calif.) headquarters to StrataCom. Chambers spent a half-hour soothing the customer—and StrataCom got the order.

The irony is that Cisco's roots couldn't be further from the wheeling and dealing of the sales world. The company was founded in 1984 by the husband-and-wife team of Stanford University engineering professors Leonard Bosack and Sandy Lerner. The two were frustrated because

switches—Cisco ventured beyond routers for the first time, buying Ethernet startup Crescendo Communications. It worked so well that Cisco was on a spending spree. Some 14 more acquisitions followed, putting Cisco in nearly every facet of the \$27 billion networking industry.

But the buying binge has a downside. Today, some 15% of Cisco's 11,000 employees come from the merged companies, each with its own product signs. Insiders say that has created an atmosphere of mini-empires, where employees refer to each other by the company they came from. "It's like explaining what language they speak," says a former Cisco executive. Resentment, for example, has smoldered between two groups: one from Kalpana, the other from Crescendo. When the latter reached a sales milestone, executives threw a pep rally, dumping confetti on the Crescendo engineers. Kalpana employees were miffed. "I can tell you, there was a lot of coffee room muttering about that one," says a former employee.

"FRUSTRATING." But the real drawback may have more to do with R&D than with egos. Insiders say many of Cisco's engineers are spending their time integrating acquired technologies, instead of developing groundbreaking new ones. "It became a very frustrating place," says Lawrence Lang, a former Cisco marketing executive who left last year for rival Ipsilon Networks Inc. "Cisco was saying very clearly to people like me: 'If you want to innovate, go join a startup.'" Critics say that's putting a drag on research and development, which is losing its edge. Not so, says Chambers. Cisco will spend \$700 million on R&D this year, 10.7% of estimated sales—about the same percentage as rival 3Com.

Still, Cisco may have been caught flat-footed by a new technology that could do away with routers. Silicon Valley startup Ipsilon Networks has developed so-called IP switches that di-

DEFECTOR

President Lawlor of AGIS decided that Cisco's equipment was too slow and went shopping elsewhere



they couldn't send messages to one another across the school's incompatible networks, a wired Tower of Babel.

So they devised a box that could translate between different computer languages used by the myriad networking gear. That's how their first router was born. Soon, they left Stanford to form Cisco, dreaming up the name, a truncation of San Francisco, while driving across the Golden Gate Bridge. Customers leaped at the technology. By 1990, Cisco's revenues hit \$70 million, and the company went public in a stock offering that made millionaires of dozens of employees, including its founders, who left shortly thereafter.

Cisco quickly became synonymous with routers, but in 1993 it faced a turning point. To grab hold of the newest trend in networking—cheap Ethernet



work of routers but at a lower cost. Cisco has attracted enormous interest including licensing deals and a \$20 million equity investment from Caron Systems Inc. "IP switching is a major threat to Cisco's fat-daddy, high-margin business," says David L. House, chief executive of archival Bay Networks. Not that Cisco is sitting on sidelines. The company is developing an answer: a new software technology it plans to deliver later this year, called IP switching, that will do the same—but only on Cisco gear.

Regardless, Chambers insists that customers won't dump routers overnight. Instead, he says, corporations are adopting hybrid networking solutions—not switches at the edge, surrounded by routers that direct traffic. Furniture-maker Steelcase Inc. in Grand Rapids, Mich., is replacing routers from Bay Networks with an IP-Cisco solution of switches and routers. "We wanted one vendor that could make it all work together," says John S. Stan, Steelcase's business technology manager.

That's why Cisco is far from giving up on routers. In fact, it is developing a new ultrahigh-speed device that's officially called the Gigabit Switch Router but nicknamed the Big Fast Router (BFR). It hasn't announced

LATE?

Vice-President Wellman admits Cisco should have been quicker with efforts to develop a faster router

have been out a year ago," says analyst Miller. Selby Wellman, a Cisco senior vice-president, denies the BFR is behind schedule but says he wishes the company had started developing it earlier.

LESSONS FROM IBM. Whether it's big and fast may not matter. Cisco's best defensive move could be locking in its installed base of customers—a tactic Chambers has fine-tuned over the years. Cisco's CEO spent the first six years of his career in sales at IBM, from 1976 to 1982. It was there he soaked up the computer giant's legendary sales tactics and learned the power of account control—keeping customers in the fold by locking them into technology and providing strong support.

Chambers learned another important lesson from IBM: Hook the customer on the software, not hardware. One of the company's biggest draws is a proprietary software package—called Inter-

the product or a delivery date. Analysts say the BFR will process millions of chunks of data per second, compared with hundreds of thousands for Cisco's current models. But "it should

networking Operating System, or IOS—that's designed to tie together dozens of Cisco's products. While some customers and competitors say it's more hype than help, the software still makes Cisco a standout. "Our differentiator is the software," Chambers says.

That's why analysts continue to be bullish on the company. With Cisco set to roll out a wave of new products over the next year, analysts expect 1998 earnings to climb 30% to 35% over this year's levels. That could boost Cisco's stock price to a new high, topping \$75 by April, 1998, says analyst Martin P. Pyykkonen of Furman Selz LLC.

But over the longer term, Cisco faces other potential adversaries that could dwarf its networking rivals. Development is already under way to put the entire routing function into a silicon chip, the domain of Intel. And routing also can be performed on a standard PC. Microsoft is testing such software, code-named Steelhead, that will be bundled into its next version of Windows NT.

That could make industry behemoths Microsoft and Intel potential Cisco competitors, though all the companies dismiss that possibility today. Cisco began collaborating with the Wintel duo in the past two years on improving Net technology. "But I wouldn't rule out the possibility of competition," says Bear, Stearns & Co. analyst Eric I. Blachno.

CISCO'S GREAT SHOPPING SPREE

Cisco has spent more than \$5.5 billion in the past three years acquiring companies strong in areas where it was weak or absent

That's a warning Chambers has to heed as he steers Cisco through rough waters. The job won't be easy. For one thing, the management team has not faced tough times at Cisco before. "This is an organization that has never had its nose bloodied," says Harry V. Quackenboss, a former

Cisco executive who is now a board member at rival XLNT Designs Inc. in San Diego. But Chambers has seen plenty of blood before. While an operations executive at Wang in 1989, he laid off some 4,000 people in his first 15 months on the job. "It just about destroyed him," says his father, John Turner Chambers.

Chambers has vowed he'll never go through that nightmare again—which is good news for Cisco in crunch times.

By Andy Reinhardt in San Jose, Calif., with Peter Burrows in San Francisco and Amy Barrett in Washington

SWITCHES FOR SMALL NETWORKS

GRAND JUNCTION	\$348 million	Invented switches for Ethernet, a networking standard
KALPANA	\$203 million	Pioneer in Ethernet switches
CRESCENDO COMMUNICATIONS	\$89 million	Developed tenfold boost in Ethernet speeds

SWITCHES FOR BIG NETWORKS

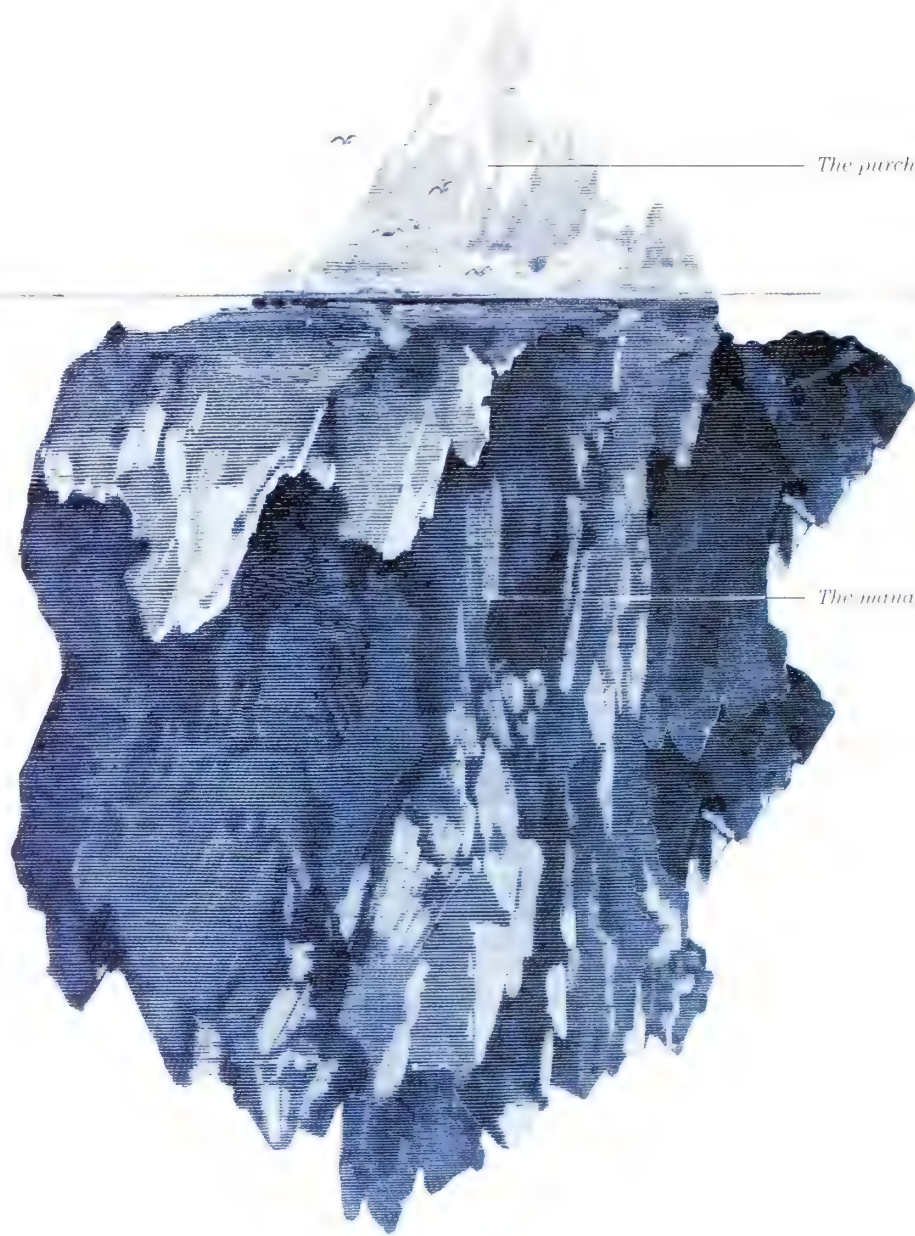
STRATACOM	\$4 billion	Leading supplier to telecom industry
GRANITE SYSTEMS	\$220 million	Developed superfast Gigabit Ethernet
LIGHTSTREAM	\$120 million	Early developer of high-speed switches

DIALING IN FROM AFAR

COMBINET	\$114 million	Digital modems for telecommuting
NEWPORT SYSTEMS SOLUTIONS	\$91 million	Software linking far-flung networks

INTERNET SOFTWARE

TGV SOFTWARE	\$115 million	Software for corporate intranets
INTERNET JUNCTION	\$5.5 million	Software for connecting to the Internet



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WHY THE FASTEST CHIP DIDN'T WIN

Digital's superspeedy Alpha outraces the Pentium. But so far, it can't crack the mass market

Last summer, executives from Digital Equipment Corp. fanned out across the country. They traveled light, carrying the latest samples of the company's powerful Alpha computer chip encased in plastic sleeves the size of credit cards. Their mission: To talk computer makers, including Compaq Computer Corp. and IBM, into using the chip as the engine for speedy new machines.

But after 10 months on the road, it's beginning to look more like mission impossible. While Alpha boasts bragging rights as the world's fastest microprocessor—twice the speed of Intel Corp.'s popular Pentium chip—Compaq and IBM just aren't interested. Alpha's raw computing power, they say, isn't enough to make up for its minuscule market share and lack of software. "What's the gain for the pain?" asks Mike Perez, vice-president of Compaq's server-products division. The leading



PC maker estimates it would have to spend \$50 million just to retool its manufacturing plant for Alpha. "Searching for absolute performance may be an interesting technical exercise," he says, "but it's not where we want to be from a broad business standpoint."

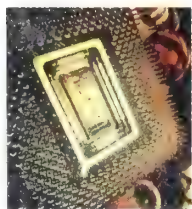
WHITTLED AWAY. After five years, Digital executives are still knocking on doors and still coming away almost empty-handed. They insist that Alpha's big break is just around the corner. But the chances of that happening are getting slimmer by the day. Despite spending an estimated \$2.5 billion to develop and promote Alpha, the chip ranks dead last in market share with less than 1% of the \$18 billion microprocessor market, vs. Intel's 92%. And with new generations of lower-cost chips due this year, including Intel's Pentium II in May, Alpha's performance advantage is being whittled away.

It couldn't happen at a worse time. The early sales spurt of Digital's own

CHAIRMAN PALMER: "Alpha will carry Digital for the next 20 years"

Alpha computers has slowed to a crawl. On Apr. 17, when Digital reported revenues for the third quarter ended May 31, sales of Alpha computers grew an anemic 3%—the third straight quarter of single-digit increases. Digital stock is taking a beating, down 32%, from 38 on Jan. 30 to 25½ on Apr. 15. Says analyst George Weiss of the Gartner Group Inc.: "If Alpha does not generate volume soon, the question arises: What is the Digital advantage and why are they blowing it?"

NOT EXACTLY THE PASSING LANE



ALPHA: DEC'S WINTEL-BUSTER

JUNE, 1991 After seeing a prototype, Apple negotiates with Digital to use Alpha in Macintoshes. CEO Kenneth Olsen declines to sell the chip to Apple.

OCTOBER, 1991 Digital produces the first Alpha chip. Its speed is roughly three times faster than existing Intel chips.

APRIL, 1992 Microsoft agrees to adapt its Windows NT operating system to Alpha.

JULY, 1992 Board ousts Olsen, naming Robert Palmer as CEO. Within two weeks, Palmer puts a big bet on Alpha by breaking ground on a \$450 million chip plant.

LATE 1992 Intel declines to adopt Alpha architecture for an alternate line of speedy microprocessors.

AUGUST, 1995 Digital and Microsoft announce a broad alliance, spurred in part by Digital's threat of legal action over



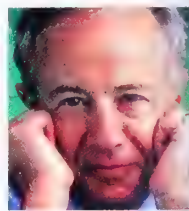
OLSEN: LITTLE FAITH IN ALPHA

NT's use of software code Digital claims to own.

JUNE, 1996 Samsung Electronics agrees to produce Alpha chips.

MARCH, 1997 German PC maker Vobis to use a new low-cost Alpha chip aimed at high-volume personal computer market.

APRIL, 1997 Analysts expect Digital's earnings to fall 70% from a year ago. The Alpha is only 25% of the way to meeting Palmer's goal.

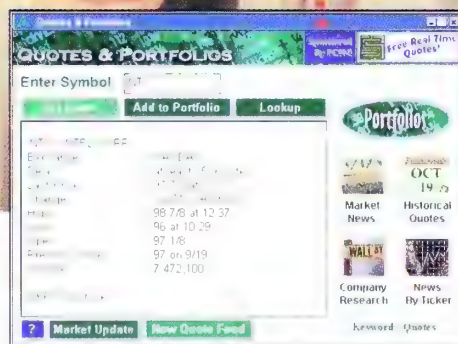


INTEL'S GROVE MIXED LICENSING

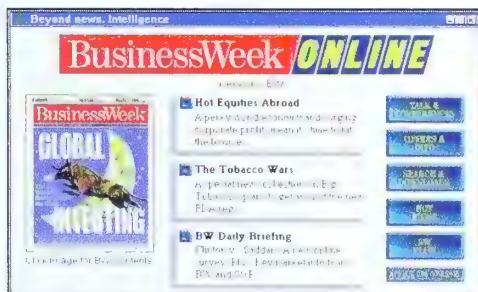
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ood question. In an industry so roughly shaped by bigger-better technology, how could a superior puter chip fail to catch on? Clearly, Digital takes the rap for its own mis-
s. But behind Alpha's poor market
ing lies a broader business les-

New technologies, no matter
whizzy, have an increasingly
gh time finding acceptance
inst well-entrenched competi-
t, like Intel. Despite the quick-
age nature of the computer in-
try, a huge installed base can
an impenetrable fortress.

ITATION. Not that Digital didn't
tribute to its weak Alpha show-
BUSINESS WEEK interviews
a current and former Alpha ex-
tives show the company hesi-
d backing the chip in its early
s—a crucial error—before
rging full speed ahead. And the
pany squandered a performance lead
ugh a series of other blunders, rang-
from a lack of software to take ad-
vantage of the chip's speed to internal
gling over pricing.

Digital sees it differently. CEO Robert
Palmer admits Alpha has not lived
to the company's original hopes, but

he insists its best days are ahead. As a
sign of the chip's viability, he points to
the \$7 billion worth of Alpha computers
that Digital has sold since their intro-
duction in 1992. What's more, Palmer
is proud of the fact he has continued

SPEED ISN'T EVERYTHING

*Microprocessor worldwide
market share, 1996*

CHIP	SHARE	MANUFACTURERS
X86	92.8%	INTEL, AMD, CYRIX (INCLUDES 386, 486, PENTIUM)
POWERPC	3.3	IBM, MOTOROLA
MIPS	2.1	TOSHIBA, NKK, NEC
SPARC	1.2	TEXAS INSTRUMENTS, FUJITSU
68000	0.4	MOTOROLA
ALPHA	0.1	DIGITAL

DATA: SEMICO RESEARCH CORP

investing in Alpha, keeping it techni-
cally tip-top for five years, despite com-
pany losses totaling \$5.4 billion over the
same period.

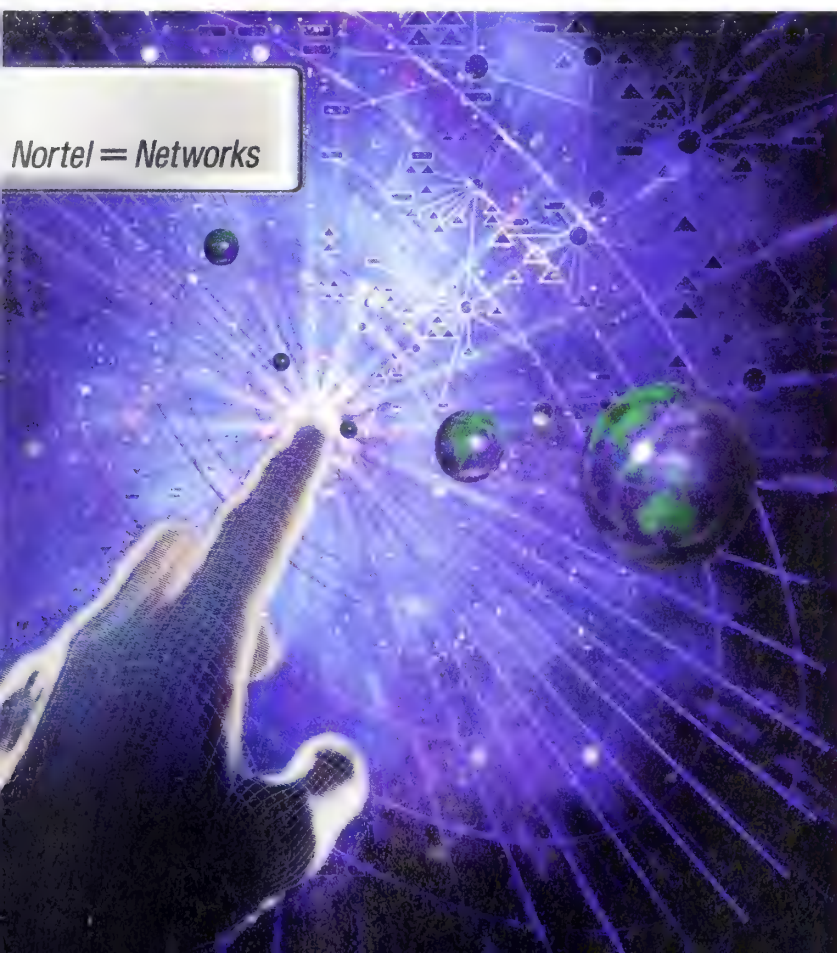
There is no question Alpha came at
a critical time. When Digital launched
the chip on Feb. 25, 1992, the company
was losing \$8 million a day. Its reputa-

tion as a provider of world-class tech-
nology was sinking fast. So Digital ex-
ecs seized on Alpha as the core of their
comeback plan for a wide range of ma-
chines, from powerful PCs to large-scale
computers.

But even before Alpha hit the
market, Digital fumbled. The com-
pany had shown off early versions
of the chip at an industry confer-
ence in February, 1991, and engi-
neers at Apple Computer Inc.
were impressed. Apple was in the
market for a new chip supplier,
and Alpha looked promising.

In late June, John Sculley, then
Apple's CEO, invited Kenneth H.
Olsen, Digital's founder and presi-
dent, to dinner. Sculley had a
proposition: Apple's Macintosh
computers were starting to run
out of gas, and he wanted to do a
complete redesign with Alpha at
the heart of the new Macs.

But Olsen had doubts about Alpha.
His unshakable faith in the VAX com-
puter, which had turned Digital into
IBM's most formidable competitor in the
1980s, made him reluctant to phase it
out too soon in favor of Alpha. Olsen
asked a team of Digital's top engineers



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extend the computer's design for another generation—and he rejected Sculley's proposal.

A few months later, Apple announced its new Macs would run on the new 68000 chip, a competing design by Intel and Motorola Inc. Sculley says one of his digital director later told him that Digital's board was "distressed that nothing came of these discussions and that Digital lost a great opportunity." The Alpha situation at Digital was crestfallen. "Ken Olsen didn't want the future of the company riding on Alpha," says William R. Demery, a former vice-president of Digital's Alpha and VAX businesses who retired in 1985. Too bad. With Apple as a customer, Digital would have had 3.4% of the microprocessor market, although a distant second to Intel. Olsen did not respond to repeated requests for an interview.

MEMORY HOG. By late July, 1992, Olsen's misgivings about Alpha ceased to be an issue. The company had ended the fiscal year with a \$2.1 billion loss, and Digital's board asked the 66-year-old founder to step down. His replacement was Bob Palmer, a Texan who had spent the bulk of his career in computer chips, most recently as head of manufacturing.

With Olsen gone, Digital's senior management quickly settled on a strategy of trying to license the Alpha design. "We had to get a major chip player to accept Alpha and drive it into the marketplace," says John F. Smith, then Digital's senior vice-president of operations and now president of

Chipmakers passed on Alpha. Bill Gates agreed to back it with Windows NT

PerSeptive Biosystems Inc., a pharmaceutical equipment maker. Smith and other Digital execs didn't think they had a chance persuading computer companies to use Alpha—unless a big chipmaker was behind it.

So Smith went to the biggest maker of chips in the business—Intel. In the fall of 1992, Smith called Andrew S. Grove, CEO and president of Intel. Grove was well aware of the technical merits of Alpha, but it did not take

him long to pass on licensing the chip. Adopting Alpha, even as a high-end addition to Intel's commodity business, would require a costly overhaul of Intel's design and manufacturing processes. "We didn't want to branch out to an incompatible deal," Grove says.

Nor did Texas Instruments, Motorola, and NEC. So Digital set out for even bigger game—Microsoft. Digital executives were pushing for Microsoft to adapt its next-generation software, Windows NT, to Alpha. Palmer met with Microsoft CEO William H. Gates III and agreed to make NT a central part of Digital's computer business. In return, Microsoft agreed to release a version of NT for Alpha at the same time it came out with versions for Intel and the MIPS chip designed by Silicon Graphics Inc.

Digital executives were elated. They constructed their business plans for fiscal 1993 around the assumption that NT would quickly drive Alpha into high-volume markets, including corporate PCs. That meant pouring tremendous resources into fine-tuning Alpha to work with Microsoft's software.

But in early 1993, when Digital engineers eagerly loaded test versions of

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onto their computers, it quickly became apparent that the software needed far too much computer memory to run on a typical PC—or even a \$5,000 Alpha machine. That put NT beyond the reach of the mass market that Digital had been counting on for Alpha.

A mad scramble erupted inside Digital. Palmer ordered a crash program to get out Alpha computers running a stripped-down version of Digital's Unix operating system, a rival to NT. But many customers doubted Digital's commitment to Unix would last once Microsoft solved its NT problems. Revenue fell, and Digital posted a \$224 million loss that year. By focusing Alpha on NT, Digital "lost three years in the market," says Edward J. Zander, president of Sun Microsystems Computer Corp.

Still, the future of Alpha—and Digital—increasingly depended on NT. And Digital's relationship with Microsoft is growing more complex. In mid-1993, Digital engineers looking into earlier versions of NT noticed that some portions of the program bore a striking resemblance to an advanced operating system called Mica that Digital had developed, but canceled in 1988. Mica was

the brainchild of Dave Cutler, a former Digital software star who joined Microsoft in 1988 and was now the chief architect of NT.

Palmer decided that Digital had a legal claim against Microsoft. But, insiders say, instead of filing suit, Palmer chose to use the threat of legal action to spur Microsoft into improving Alpha's prospects. Microsoft execs won't comment, saying it concerns legal matters. Still, Palmer's gambit appears to have worked. By the spring of 1995 the two companies hammered out details of a broad agreement for Digital to provide NT network installation services for Microsoft. Announced with great fanfare by Digital in August, 1995, the alliance included payments by Microsoft estimated at \$65 million to \$100 million to help train Digital NT technicians.

On the surface, that appeared to help boost Digital into a prime spot for milking NT's strong growth. Since October, Microsoft has also dropped its support of two rival chips—the PowerPC, made by IBM and Motorola, and MIPS. But this crucial alliance may now be fraying. On Mar. 19, Microsoft announced a joint marketing and services

agreement with Digital's archival, Hewlett-Packard Co. The Palo Alto (Calif.) company will hawk NT in large corporations—the role Digital once held exclusively.

In retrospect, former Digital executives say, the company would have had more success if it had lowered the price of Alpha computers. By late 1994, engineers had found a way to deliver a \$4,995 "AlphaStation" aimed at the fast-growing workstation market. But a clash broke out among Digital's senior management because of fears that this could damage the 50%-plus gross margins Digital enjoyed on high-end computers, one of the few bright spots in its gloomy financial outlook.

"SPLIT PERSONALITY." Digital's PC Business Unit was none too happy about the prospect of low-cost Alpha machines, either. Execs there lobbied against it, saying it would undercut prospects for building a big business around Intel-based PCs. When the AlphaStation finally hit the market, it bore a \$7,995 price tag. "Digital has always had a split personality," says Enrico Pesatori, who left Digital last summer after the PC Business Unit he headed suffered continuing losses. "Every Intel



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ver sold means an Alpha server that not sold."

Today, Digital's Intel-based machines using NT outsell its Alpha computers 10 to 1 in the high-volume market for low-cost servers, says the Gartner Group. That's because software for NT is specifically tuned for Digital's Alpha chip, a task few software developers are interested in taking on given the small volume of Alpha-based computers. Even longtime Digital customers, such as Toys 'R' Us Inc., are abandoning NT networks linking thousands of locations on Intel computers instead of Alphas. "The biggest reason is the lack of software," says Matthew J. Lombardi, vice-president for information technology at Toys 'R' Us.

Of course, Digital is more than Alpha and Intel-based computers. The company, for example, is expected to post revenues of \$5.8 billion in services this year, while networking and computer storage systems should contribute roughly \$1.4 billion. But it is Alpha that distinguishes Digital from its competitors, offering the company its best hope for remaining to star status.

And Alpha's best opportunity, Palmer insists, lies in the future. In

mid-March, the company introduced a low-cost version of the Alpha chip priced from \$295 to \$495—some \$100 less than its previous minimum price. That makes Alpha affordable, for the first time, in PCs costing less than \$2,600. Digital is hoping that this, combined with a Samsung Electronics Co. alliance to make and market Alpha,

Cheaper Alphas might have made a difference in '94, but DEC needed fat margins

will help the chip crack the volume computer market. "Alpha will carry Digital for 20 years while other chip technologies have fallen by the wayside," Palmer says.

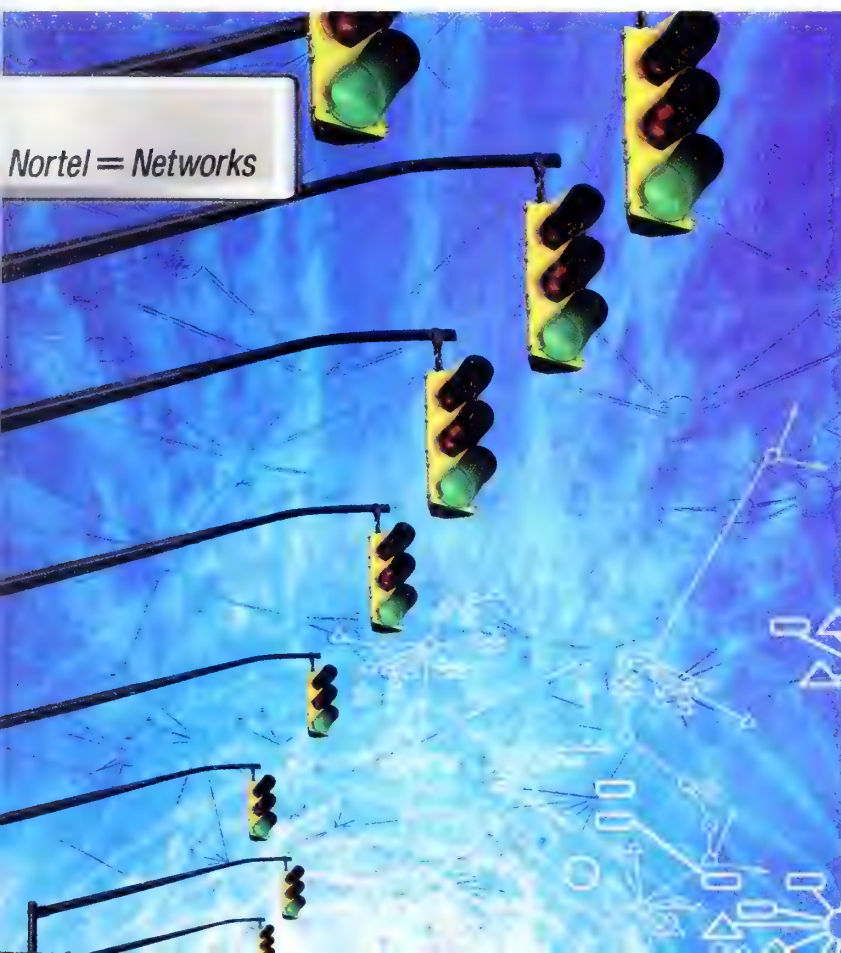
A couple of years ago, he predicted one in five computers running Microsoft's Windows NT software would be powered by Alpha. The number today is closer to 1 in 20, according to the Gartner Group. So far, though, only

27 small companies have plans for low-cost Alpha computers, the largest being German PC maker Vobis Microcomputer. Vobis tried to launch an Alpha workstation in the German market four years ago but abandoned the campaign after selling fewer than 500 machines in two months. Vobis CEO Gert Huegler, though, is now willing to give Alpha a second chance because, he says, it delivers better performance than Intel. Also key: Digital has an answer to the software shortage—so-called "translator" software that enables Alpha to run programs written for Intel chips.

Even so, Huegler figures that Vobis will be lucky if sales of the \$4,000 Alpha machines amount to 5% of the company's overall revenues of \$1.3 billion. And if it doesn't—so what, he says. "We can switch it on or switch it off," Huegler adds.

Unless more computer makers start flipping the switch on Alpha, Digital may wind up with the world's fastest microprocessor and the smallest installed base of customers.

By Paul C. Judge in Boston, with Andy Reinhardt in San Francisco and Gary McWilliams in Houston



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THE GURU OF GOOD GOVERNANCE

Lawyer Ira Millstein is the éminence grise prodding companies to transform their boards

Like a caged animal, Ira M. Millstein is pacing his personal conference room at the New York law firm of Weil, Gotshal & Manges, on the 34th floor overlooking Central Park. The tall, trim 70-year-old doesn't understand why anyone would be interested in him. "Tell me," he challenges, "what's the story?"

Never mind that Millstein has been in the news a lot lately. He's advising heiress Elisabeth Goth in her campaign to prod the board of Dow Jones & Co. to do more. And as an arbitrator, he has found himself in the middle of the breakup of the four multimillionaire partners in Duty Free Shops Group.

When most lawyers his age are happiest swinging a golf club, Millstein is at the top of his professional game. An éminence grise of corporate governance, he now spends well over half his time on board issues. He teaches governance at Yale University, lectures on it to lawyers, and advises clients that include Westinghouse Electric, Estée Lauder, Empire Blue Cross & Blue Shield, and LENS, the activist investor fund.

"PET ROCK." Over nearly two decades, Millstein has helped transform the relationship between a company's board and its shareholders and management. Thanks in part to him, directors are more aware of their responsibilities, and shareholders are more likely to do something about poor performance. Along the way, Millstein has represented clients on every side of the issue: disgruntled investors, executives under attack by shareholders, and boards that want CEOs to resign.

Although he has long been a player in governance circles, it was his part in General Motors Corp.'s 1992 boardroom coup that made his name. Millstein tutored the board (once derided as "a pet rock" by departing director Ross Perot)



"STATESMAN": He helps executives and investors find common ground

to become more active, then guided the directors through their decision to oust Chairman and CEO Robert Stempel. GM Vice-Chairman Harry J. Pearce says Millstein "provided guidance on how to be a better company and to make sure we weren't reacting emotionally."

Remarkably, Millstein wins plaudits from people with contrasting perspectives on governance. "His role has been that of a catalyst, bringing together the institutional investors and corporate executives to get them to agree on what makes sense for everyone," notes Reginald H. Jones, former chairman of General Electric Co. Says Nell Minow, a principal of the LENS Fund: "If there is anybody in this field who could be held as a statesman, it is Ira."

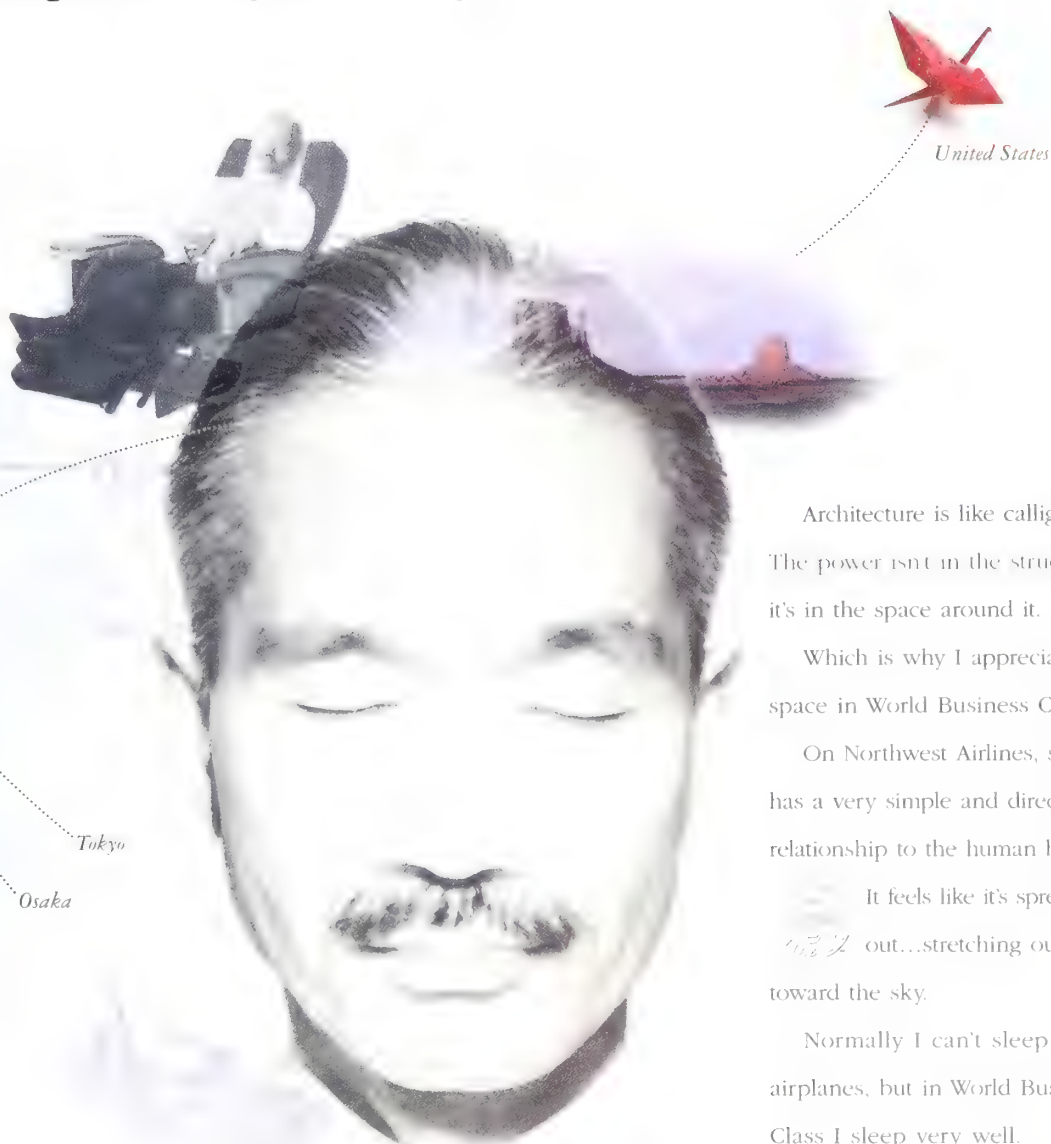
With his wavy white hair, impeccably

tailored clothing, and regal bearing, Millstein looks like a statesman. Yet he speaks with boyish enthusiasm, his voice often rising to a near-falsetto as he makes a point—which usually happens behind closed doors. His professional relationships tend to broaden over time. GM's directors, for example, regard him as "a real colleague and ally," says Pearce, who talks with him "many times a week." Observers say GM seeks his input on an astonishing range of issues.

Millstein has approached his long career as a series of problems to be solved. "Torture for him would be life without a problem," laughs his wife, Diane, a real estate developer who met him when he was a teenager playing stickball on Manhattan's West 99th Street. That eagerness to grapple with thorny situations

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"When General Motors went, the dominoes absolutely fell... because GM legitimized an active board"

helped him overcome a hard-knocks upbringing. Millstein's father, a furniture salesman, prospered for a time and moved the family to suburban New Rochelle, N.Y. But he lost his house in the Depression, and the family returned to the city. Ira attended Columbia University, where he says he was told he got in "as part of the Jewish quota." To earn money, he sold hot dogs at Baker Field. He pursued a law degree after deciding that his undergraduate major, industrial engineering, was less challenging than law—and less hospitable to Jews. "Ira Millsteins," he says, "didn't get jobs in big companies in those days."

After a two-year stint as a Justice Dept. antitrust lawyer, he joined Weil Gotshal in 1951. Now a 574-attorney firm, it had only about a dozen then, and he did a bit of everything—filing tax returns, preparing wills, negotiating divorces. He graduated to antitrust, becoming one of the country's leading experts. He also became known for his fluid mind and healthy impatience.

Millstein's Vesuvian temper is infamous. His partners once insisted that his office be soundproofed. A long-running joke at the firm was that you were no one until Ira fired you—perhaps more than once. His disposition is no better away from work, says his wife, recalling the time he set a pair of tennis rackets on his car, then sped away. "He was so ticked off, he didn't play tennis for 10 years," she says. "He was mad at the tennis rackets."

"SCRAMBLERS." Millstein concedes that, early on, he was a taskmaster. "When this firm was growing up, we were scramblers," he says. "We had to read more, write more, and just win." Colleagues say Millstein, a partner since 1957, still thinks nothing of rousing them with a 6 a.m. call.

Rarely does he worry about whose ire he arouses. Last year, he chaired a National Association of Corporate Directors panel that created a key set of governance guidelines. He refused to yield on the most controversial recommendation—limiting memberships of "professional directors" to six—despite strenuous objections by panelist Ann D. McLaughlin, who sits on 16 corporate and nonprofit boards, including GM's.

Millstein's involvement in governance began when he was hired in the late 1970s as outside counsel for the Business Roundtable, the assemblage of big

company CEOs. In April, 1982, the American Law Institute drafted a report urging changes that would make it harder for courts to dismiss shareholder suits. On the Roundtable's behalf, Millstein issued a counterargument, setting off a battle with attorneys and academics. "I was attacking the temple," says Millstein, "but I was convinced down to my toenails that litigation was not the way to increase corporate performance." The Institute took until 1994 to publish its final report, but in the end, Millstein prevailed, and the section on litigation was watered down.

More important, the dispute led him to steep himself in the issue of how boards interact with management and shareholders. In 1987, he urged the new

Council of Institutional Investors to focus on performance and boards rather than poison pills and social issues. The audience was Dale Hanson, CEO of California Public Employees' Retirement System (CalPERS). "It was a turning point," says Richard H. Koppes, the CalPERS' general counsel. "Here was spokesman for Corporate America who said you have a legitimate gripe if you focus on performance." Within two years, the fund became a strident, often effective activist shareholder.

WATERSHED. In 1989, participants in a governance seminar began questioning Millstein about the board of client GM. "They said the board ought to be doing something," he recalls. "That led to me thinking about being more forthcoming with everybody in Detroit." Today, he divides the history of governance into "pre-GM" and "post-GM." Says Millstein, "When General Motors went, the dominoes absolutely fell. After GM, America Express, Eastman Kodak, Westinghouse and IBM all went. They did so because GM legitimized an active board."

Millstein tends to view governance as a universal solution. Overseeing Drexel Burnham Lambert Inc.'s bankruptcy from 1990 to 1992, he won the trust of creditors by putting together a board of outsiders. He later did the same at Olympia & York Co. USA, staving off a potentially disastrous bankruptcy filing and permitting a less disruptive prepackaged bankruptcy. "Again, governance won the day," he asserts.

To help Goth pressure the board of lackluster Dow Jones, he made a list of independent directors and lobbied the company to hire them. Dow Jones added two outsiders, but not from his list. Driven by several factors—Millstein's hiring, news of Goth's campaign, and a large stake taken by hedge fund manager Michael Price—Dow Jones stock has risen 15% since late December.

Dow Jones's survival has never been at stake. It's merely a weak performer. The new challenge, says Millstein, is to squeeze better results from just such "middling, bumping-along, not-too-terrible" companies: "That would be where I would like to see boards become more active." No doubt, as that becomes the norm, Millstein will be on hand, helping to ratchet up the pressure—and advising the boards that respond.

By John A. Byrne in New York, with Keith Naughton in Detroit

BOARDROOM CRUSADER

BORN

Nov. 8, 1926

EDUCATION

1947 B.S. in engineering, Columbia University

1949 LL.B., Columbia University

CAREER

1949 To Justice Dept.'s Antitrust Div.

1951 Joins Weil, Gotshal & Manges

HIGHLIGHTS

1987 Urges public funds to focus efforts on boards and performance rather than social issues

1990 Helps create a board weighted with outsiders to aid the bankrupt Drexel Burnham Lambert in gaining credibility with creditors

1992 Advises General Motors board when it ousts CEO Robert Stempel

1996 Chairs National Association of Corporate Directors panel that issues broad governance guidelines

1997 Helps pressure Dow Jones board into more aggressive oversight on behalf of shareholder Elisabeth Goth

FAMILY

Married for 47 years to Diane; two children

THE CUSTOMER CONNECTION

How Call Centers Open Lines To Sales, Service & Satisfaction



ELECTRONIC BANKING. Frequent-buyer programs. Software help desks. From telemarketing to account management and product support, every major customer contact strategy today depends upon at least one common feature: the call center. Even direct mail pieces now invariably display a toll-free number leading straight to a call center.

"We view the call center as customer access technology," says Gail Young, director of call centers for North America in the Richardson, Tex., office of Nortel (Northern Telecom), the leading supplier of U.S. call center systems. "The drive for customer focus has progressed in recent decades from new products to low-cost manufacturing and total quality. Now the companies that are truly successful understand customer satisfaction and loyalty. Call centers are their tools."

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"The cost of a face-to-face sales call is 50 times the cost of a sales call over the phone," says Ross Scovotti, publisher of TeleProfessional Magazine in Waterloo, Iowa. According to call center consultants Oxford Associates of Bethesda, Md., customer acquisition and fulfillment costs can be 1/5 to 1/10 of comparable direct sales costs.

No wonder that more than half of sales in the U.S. are now conducted over the telephone. "If you don't have a call center or run one poorly," says Scovotti, "you will either lose customers because you don't have the variety and frequency of service of your competitors, or you will go broke trying to keep up."

Organizations are finding all kinds of creative ways to get sales, serve customers, and obtain market information through their call centers. Besides the standard order and complaint lines, here are just a few of the many applications of a toll-free service:

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► **Promotional games:** "It's an easy and effective way to generate calls and customer excitement," says Cynthia Grimm, vice-president of Technical Research Assistance Programs in Arlington, Va.

► **Market analysis:** Asking a few demographic questions of callers who respond to an advertising program can tell you whether you're reaching the intended market.

► **Advice lines:** "If your company is giving advice, you're often per-

ory — and the call center meets the demand or fails in its mission.

EMERGING CALL CENTER TECHNOLOGY

Telecom carriers are offering increasingly sophisticated auxiliary network services that enhance the value of each minute. AT&T offers network-based queuing, for instance, and advanced routing solutions. These include Intelligent Call Processing — a network product that routes calls according to client parameters and Call Center Transaction Manager, another network product that balances automated call distribution (ACD) creating one "virtual" center.

Last year, AT&T also began offering Internet call center technology — known as Project iA — that lets agents speak with consumers while they are still on-line at a Web site. Project iA includes "page-push" capability so that agents can send photographs or diagrams, for instance, to the caller. "We provide services from the simplest to the most complex," says Jody Wacker, national marketing director for AT&T Call Center Solutions, "to allow our customer to move toward the next generation of call centers."

The rush to the call center market is gathering momentum. Manufacturers such as Nortel, Lucent, Rockwell and Siemens Business Communications Systems shipped 11,500 systems in 1996 — growing since 1994 at about 20% a year — bringing the total to 63,000 installed. By 2001, The Pelorus Group, a telecom industry analyst in Raritan, N.J., projects sales to nearly double to 22,000 systems. "This growth is unabated

PROJECTED GROWTH IN 800/888 MINUTES

1996	116.0	Hundreds of millions of 800/888 minutes
1997	133.5	
1998	153.5	
1999	176.5	
2000	203.0	
2001	233.4	

800/888 PRICE DECLINES

Average price per minute (projected)

1997	\$.090	(-7%)
1998	\$.085	(-5%)
1999	\$.080	(-5%)
2000	\$.076	(-5%)
2001	\$.073	(-5%)

SOURCE: THE PELORUS GROUP

Although use of toll-free minutes is on the rise, prices will continue to fall.

ceived as the expert in the field offering high-quality products and services," says Grimm.

► **Technical assistance:** A support desk to offer assistance to trained technicians or dealer service managers provides added customer value and an early-warning system for product troubles.

Customers insist on quick recognition and ongoing corporate mem-

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and unlikely to end for the foreseeable future," says Sheila McGee-Smith, Pelorus's director of analysis and forecasting.

Not only are corporations buying call centers, they're upgrading their switches on a regular basis. "The technology is changing so quickly," says McGee-Smith, "it makes sense to upgrade as soon as possible."

CTI: THE RELATIONSHIP BUILDER

In Sioux Falls, N. Dak., 300 agents at the National Telemarketing Fulfillment Center are taking orders for everything from television programming to computer software. As both a call-center-for-hire and fulfillment house, NTFC makes and takes a million calls a month in response to promotions for Whirlpool, RCA, Home Box Office and numerous other clients. "We've dabbled in every industry you could think of," says NTFC president Ralph Warren, "and we want to stay diversified."

What makes such volume and variety possible is computer telephony integration, or CTI. Simply put, CTI reads coded information from the telephone network — the caller's number, for instance, or the number dialed — and plugs it into a computer. The computer's software can then identify the caller or the purpose of the call — and make intelligent decisions.

At NTFC, an ACD switch sends calls to agents trained for the product in question. High-volume or targeted customers may get priority service. Customer information from the client database is displayed instantly on screen, allowing the agent to answer with the client's company name,

addressing the customer personally. On-screen scripts prompt the sales pitch and a "whisper mode" in the agent's ear acts as a reminder of any forgotten details. "We're able to answer objections and cross-sell," says Warren. "It gives us a lot of flexibility."

The smart networks that CTI makes possible show up in all kinds of services carrying added value and cost savings. To cite just a few:

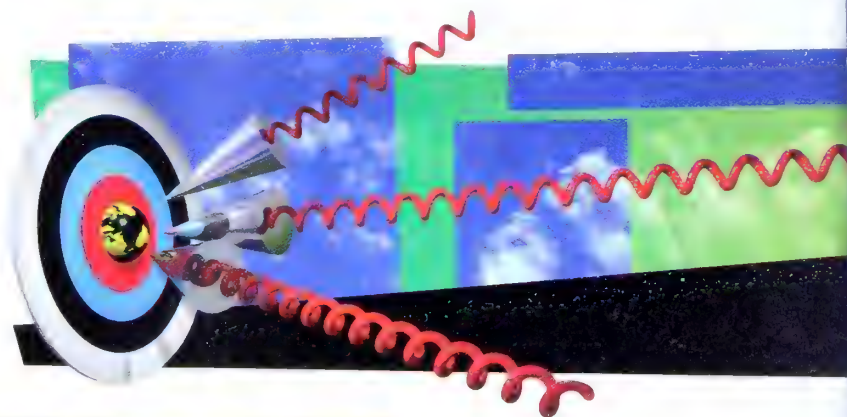
► **Intelligent routing:** Identifies the caller's number (or number dialed) and directs the call to the most

productivity by 70% to 300%.

► **Interactive voice response:** Automates routine calls through touch-tone keying or voice recognition. Reduces agents' call volume by 20% to 30%.

► **Virtual ACD:** Channels 800/888 calls to the closest branch office or the first available agent.

Handling calls for a variety of clients and products, as any call center outsourcer understands, presents special difficulties. Products have different peak periods and an onrush of inbound calls may



Call centers can help win new customers with targeted promotions

suitable agent — across the floor, across continents and in some cases across oceans. Makes it possible to respond in Spanish, for example, or instantly connect a frequent investor with a mutual fund expert.

► **Screen pop:** Recognizes a familiar number and simultaneously "pops" customer or product information on the agent's screen. Typical savings: 20 to 45 seconds a call.

► **Predictive dialing:** Automatically dials calls. This eliminates fax machines, voice mail, and no-answers before handing over live calls to agents, raising call center

clash with the need to make outbound callbacks, survey queries, or telemarketing calls.

At International Data Response Corp. of San Diego, Calif., the answer is a predictive dialer integrated with an ACD switch that enables each agent to become a universal station. The predictive dialer places calls when inbound inquiries are less frequent. When inbound calls start coming at a faster pace, the switch gives them priority. "We optimize our use of agents," says IDRC president Dan Plashkes. "Instead of waiting for calls, they're doing outbound."

Even in the most straightforward applications, the versatility and speed required of the call center agent make certain CTI applications a must. "You need an intelligent agent," says Nortel's



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BW 28/4

Gail Young. "CTI makes good agents appear even smarter."

Some organizations are actually using CTI software applications to attain the ultimate in instant response: customer self-service. Mosaix Inc. of Redmond, Wash., combines its expertise in predictive dialer applications and workflow automation to allow clients — usually financial services and telecommunications companies — to link the call center with automated back-office processes.

The results carry far-reaching implications: call center agents have access to unstructured customer history such as faxes, letters, and application forms as well as the usual structured database information. Plus, customers have the ability to initiate orders, inquiries or complaint processes themselves, and by using a reference number, track their progress and be delivered immediately to the appropriate point in the process for follow-up. "By bringing all of that information to the agent's desktop, it's possible to manage the entire customer relationship rather than a single transaction," says Mosaix's senior vice-president Steven Adams. "You can provide a level of service equivalent to the value of the customer to the business."

According to a 1996 Pelorus Group survey, about 13% of call centers now use CTI and another 8% are testing or implementing it. However, the study forecasts that the current ratio of 73% custom-made to 27% off-the-shelf will drop to 58% custom-made to 42% off-the-shelf by 1999. This will bring prices down. CTI is then expected to be the force it has always promised to become.

The real challenge will be preparing for the organizational impact of CTI. "Planning CTI applications comes with huge corporate implications," says Pat Shafer, general manager for call center applications at Lucent Technologies. Some recurring dilemmas: deciding which internal systems will be connected to the network — and how — and which ones need to be rebuilt. Also marketing, information systems, and financial control personnel frequently have not met one another, despite the

ahead of the game are already mining their data, integrating everything they know about that customer," says Eric Shepcaro, Sprint's vice-president of customer engineering and applications support. "The challenge is tying it all together and utilizing it." It's a vision that's not far from reality.

OUTSOURCING: BRING IN THE EXPERTS

Planning and running a call center is time-consuming, complicated, and expensive to the tune of about \$2 million before considering necessary infrastructure changes, software integration, and training costs.

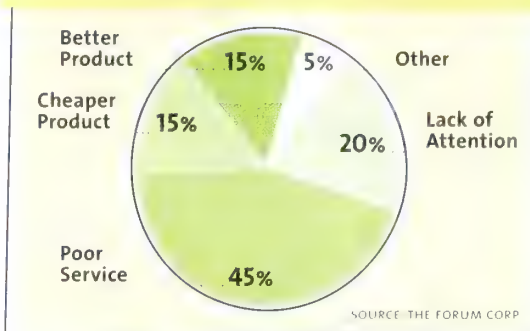
Thankfully, industry suppliers have a stake in your success. Toll-free service providers, for instance, don't get paid for incomplete calls. That's one reason why carriers such as Sprint Communications Co. have developed sophisticated one-stop call center consulting businesses to build your call center, enhance it with special add-ons, train your staff, handle overflow or even run the center entirely.

Sprint's CallCenter Connection — with its consulting, network services, premier relationships, and outsourcing arms — is a suite of offerings that gives organizations numerous options between "do-it-yourself" and total outsourcing.

An assessment from the consulting branch, for instance, helps avoid the fate of more than 50% of new call centers that need redesigns in the first nine months. Sprint consultants examine appropriate training, real estate, layout, and technology as well as network design and disaster recovery plans.

"We're not just producing a pipe," says Eric Shepcaro, Sprint's

WHY DO CUSTOMERS STOP BUYING? *It's service, not product or prices*



fact that their systems must now work together seamlessly. Even details such as how much information can go on one computer screen pop can make a crucial impact on success.

Open systems are making the job easier as time passes. It's not unusual for five or six suppliers to contribute applications. Integrated consulting services among carriers such as Sprint CallCenter Connection, with close relationships to vendors like Rockwell, IBM and Nortel, help clients make use of the multitude of CTI and other call center technologies.

The arrival of CTI complements call centers' strong contributions to customer sales and service. "The companies that are

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vice-president of customer engineering and applications support. Even so, Sprint's network services branch offers add-on features to custom-design the pipeline of your choice. Sprint Guard Plus prevents fraudulent stealing of confidential client numbers, for instance. There's also standard network options such as built-in IVR (interactive voice response). Network Call Distributor is a network-resident traffic handler that turns multiple call centers into one "virtual" call center by sampling call volume every 20 seconds before sending calls to the next available agent.

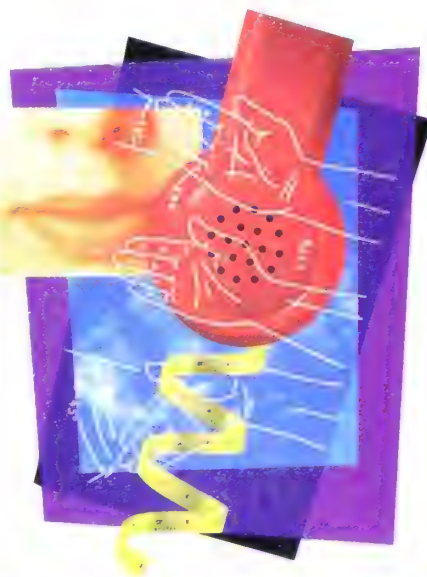
Sprint Telecenters Inc., an outsourcing service, consists of more than 1,000 agents capable of taking 100,000 calls a day. Sprint Telecenters' three telemarketing sites and one market research operation can either provide full service or simply take on peak-period traffic. "The key to outsourcing is to understand the business needs of the client," says Shepcaro. "We find out whether the primary goal is to increase customer retention rates or increase revenues, then we consider the appropriate technology."

Outsourcing doesn't have to mean losing control of essential customer contact functions. Managers at TeleService Resources Inc. (TSR) of Fort Worth, Tex., meet with clients beforehand to "define success." If TSR will be handling a customer service application, success could be defined as answering a certain number of calls, minimizing waits to a stated maximum, and maintaining a specific average talk-time-per-call. Sales applications would carry a different definition. At a quarterly review with each client, TSR

reports on its performance. In addition, each of its eight decentralized call centers has a director with a staff responsible for customer reporting — on an hourly basis in some circumstances.

"Our clients have entrusted us with a significant part of their businesses — the part that reaches out and touches their customers," says TSR senior vice-president and general manager Bill Jackson. "We are central to their success, so our focus is on getting the results they want."

Outsourcing call center services is not the only solution. If call volumes are fairly predictable and high levels of corporate consistency are a priority, keeping the operation in-house may be the answer.



Computer telephony integration (CTI)
makes good agents appear even smarter.

However, if you choose to outsource all or some of it, outsourcing can in some circumstances eliminate duplicated effort, raise productivity in core business areas and provide better service for customers at a lower cost.

Some of that service is enhanced in ways that most organizations would be hard pressed to reproduce. The National Telemarketing Fulfillment Center, for example, not only puts 300 telemarketing professionals to work for a wide variety of consumer product and service companies, but also offers order fulfillment within two days for most U.S. destinations from its warehouses in Denver, Colo., Sacramento, Calif., Dallas, Tex., Richmond, Va., and Sioux Falls, N. Dak. Moreover, advanced CTI applications keep call response times down to less than 10 seconds with an abandon rate of less than 5%.

Added value may also come in the form of database expertise. Precision Response Corp. in Fort Lauderdale, Fla., runs 4,200 workstations in 11 call centers for about 35 mostly blue-chip clients. Its sizeable group of 320 information services professionals help PRC clients build and analyze huge customer databases. Their contributions are invaluable, says PRC President David Epstein. "If customers don't understand a certain promotion," he says, "we can tell them right away and suggest modifications."

PRC is using its edge in information technology in other ways as well. Online handbooks let agents run self-help tutorials during downtime, while

networked imaging technology allows agents to call up a three-dimensional picture of complex products as they work on customer-help desks.

Another advantage of more sophisticated outsourcers is the



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ability to incorporate Internet and electronic messages into the call center mix. Some sources estimate that electronic contacts will account for 30% to 40% of call center traffic by the year 2000.

International Data Response Corp., a 3,000-station service organization based in San Diego, Calif., offers an Internet call-back service. Users simply click a call-back box, provide a telephone number and an agent immediately calls back. In addition, a "chat" function allows customers to connect directly with a call center agent and communicate using their computer keyboard. Recently, IDRC added an upgraded call-back service that automatically displays on the agent's screen the Web page from which the caller sent the message.

Says IDRC President Dan Plashkes, "We believe the Internet will grow call center businesses radically."

Matrixx Marketing Inc., a subsidiary of Cincinnati Bell and the largest of the teleservice companies with 21 call centers and 15,000 employees in the U.S. and Europe, has taken a further step into the wired world by offering e-mail management. It's a territory so unwieldy and unmonitored that most organizations have not even begun to organize it. "There's no specific management and no tracking of what's said to clients," says Elizabeth Stites, Matrixx's director of marketing. "No one has the infrastructure or the people to do it. But we have created a simple solution."

The solution: Matrixx's Cyber-Response software. It allows rep-

resentatives to modify and categorize messages, catalog replies, and collect statistical reports. Matrixx also keeps messages behind a security firewall to defend against viruses. "With CyberResponse," says Stites, "we can make sure representatives replies are correct, high-quality communications returned usually within 24 hours."

Outsourcing is a dependable solution to the complexity of running a call center. It avoids obsolescence and saves on initial capital outlays. You can also utilize the coverage of a much larger organization. Matrixx's call centers dedicated to DirecTV Inc.'s commercial satellite television service employ three times more staff than DirecTV itself. "Our clients are outsourcing their customer relation-

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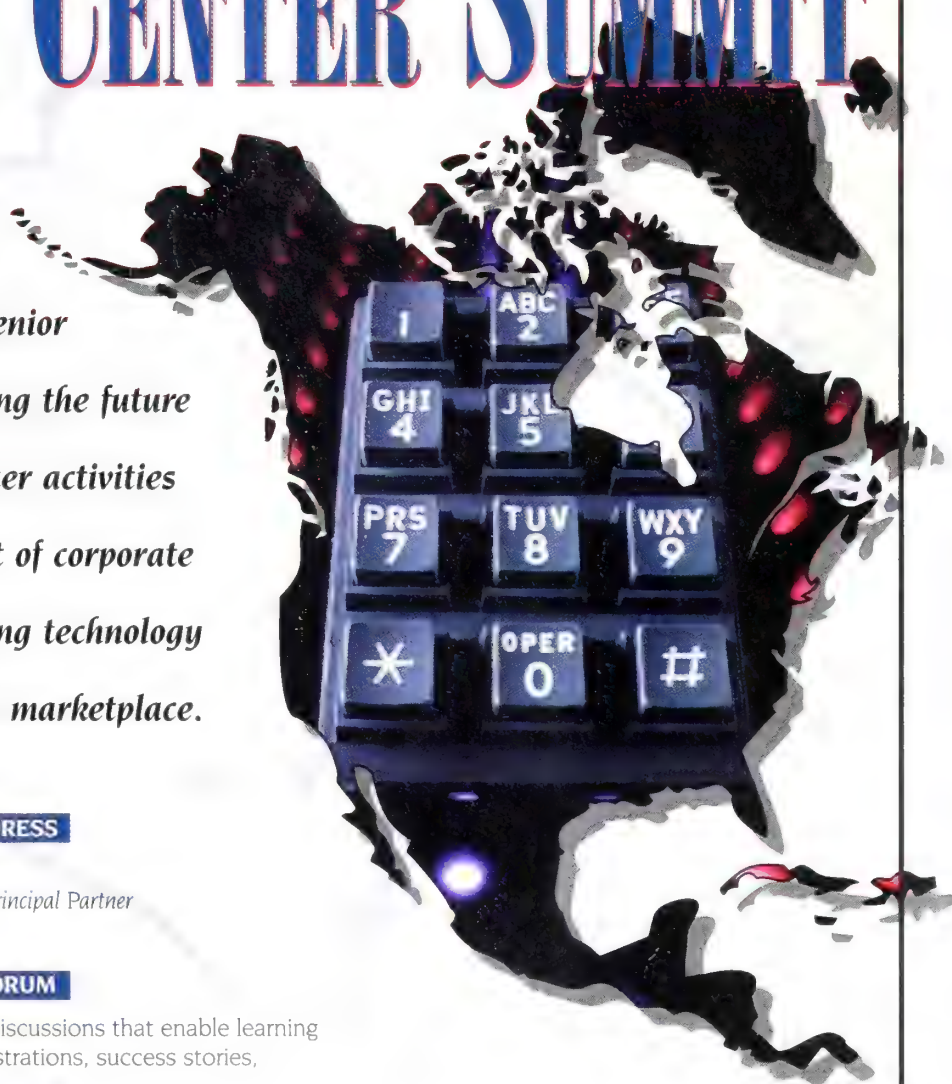
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ships to us because we are the experts," says Stites. "That allows them to be more effective at what they do."

800 ANYWHERE: CALL CENTERS GOING GLOBAL

Global 800 numbers now reach across borders. On February 1, 1997, the International Telecommunication Union (ITU) in Geneva, Switzerland, began assigning eight-digit toll-free numbers. The ITU has registered only 20,000 numbers, but there are about nine million seven-digit 800 numbers in North America.

A single toll-free number that can be dialed anywhere in the world opens a gateway to worldwide reach and brand awareness for organizations of any size. "This will be a key piece of any global marketing strategy as telecom rates continue to fall," says Chris Busch, director of marketing for discount long-distance telecommunications provider USA Global Link in Fairfield, Iowa. "These numbers will become million-dollar properties."

Sixteen countries are already participating: Australia, Belgium, Canada, Denmark, Finland, France, Germany,

Hong Kong, Ireland, Japan, the Netherlands, Norway, Singapore, Sweden, the U.K., and the U.S. Soon, Israel, New Zealand, and other nations are expected to follow.

Applicants must apply through local agencies such as USA Global Link to obtain an eight-digit global number. The fee is \$275.

The breakthrough can only add fuel to the already hot market for international call centers. The Gartner Group is forecasting the European call center software market



The companies that are truly successful understand customer satisfaction and loyalty.

will double during both 1997 and 1998 from its present level of \$110 million. Worldwide, the \$500-million call center market is expected to rocket to \$10 billion by 2001, according to Dataquest/Gartner Group figures.

The Asia Pacific region is also a target of call center attention. Sixteen call centers have opened in Singapore since 1994, attracted by the republic's multilingual society, competitive telecom rates, and central geographical positioning in southeast Asia. "Some centers are just local," says Tan Jung Hui, product manager at Singapore Telecom, "but many also serve Thailand, the Philippines, Hong Kong, Indonesia, and Malaysia."

Another prime player in the region is Australia's major carrier, Telstra Corp. "The availability of skilled labor and the relatively low cost of real estate are Australia's key strengths," says Bill Costa, Telstra's vice-president of sales and marketing. Telstra also offers an equipment lease-purchase option with on-going upgrades.

As opportunities and choices multiply, the allure of international call centers is brighter than ever. ●

John Southerst is a business journalist and communications consultant based in Toronto, Canada.

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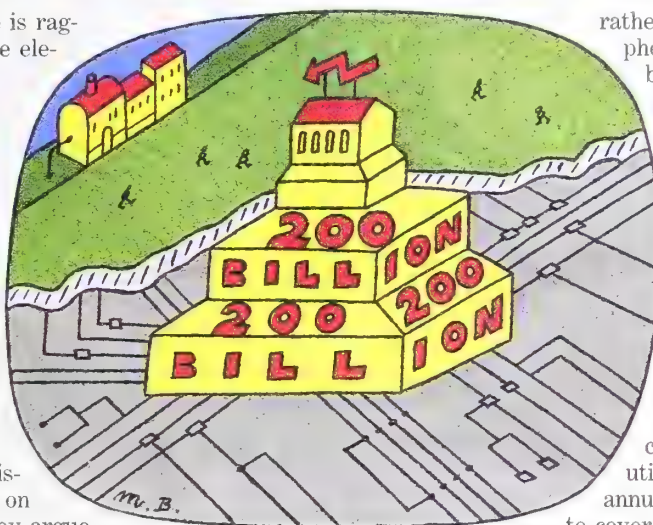
By Peter Coy

'STRANDED ASSETS': WHO SHOULD FOOT THE BILL?

A \$50 billion-a-year battle is raging over a herd of white elephants. Electric and phone companies fear that once deregulated, they will be stuck with annual costs on that scale for the care and feeding of the herd—namely, assets such as nuclear power plants and obsolete telephone switches that are rendered uneconomical by the coming onslaught of competition.

In other industries, uncompetitive assets are simply written off the books. But the utilities want permission to keep earning profits on these "stranded assets." They argue that they invested for the public good on the assumption that their monopolies would be preserved, and that to devalue their assets now by exposing them to competition without recompense amounts to an unconstitutional "taking" of their property. Opponents answer that utilities were never promised permanent protection from competition—and that to compensate them would deprive customers of the benefits of deregulation, while penalizing efficient competitors that don't need protection.

ROUGH LUMPS. Neither side is 100% right in this dispute. Companies and their shareholders deserve full compensation for government-mandated investments and contracts. But regulators ought to be tough on investments that the companies made voluntarily—insisting on evidence that the spending was not pie-in-the-sky. Even when company managers made investments prudently, shareholders should be forced to take some of the lumps for the decisions that turned out wrong. Most important, arguments over allocating stranded costs should not be permitted to delay the onset of deregulation.



The cause of the controversy is that once legal entry barriers fall in electricity generation and local phone service, investments that earned a return when prices were high suddenly become uneconomical. An electric utility, for instance, can't charge 12¢ per kilowatt-hour for power from its nuclear plant once a customer is free to buy it for 4¢ per kilowatt-hour from someone else's natural-gas-fired generating plant.

Rather than write off such an investment, the electric company that owns the wires that deliver electricity to your house might seek the government's permission to put a surcharge on your bill if you've switched to a competitor's electricity. The surcharge would help pay off power plants and other assets that you "stranded" by switching. In the local phone business, prices are being forced down mainly by regulation

rather than market forces. There, phone companies are hoping to be allowed to keep billions of dollars in underwater assets on their regulatory books and charge customers for depreciation on them.

ZERO SUM. This adds up to real money. According to some estimates, roughly \$200 billion of electric-utility assets—such as costly generating plants and fuel-purchase contracts—will be rendered uncompetitive, or stranded, by retail-market competition. Figure that a utility needs to pull in \$20 in annual revenue per \$100 in assets to cover profit, taxes, and depreciation. That's \$40 billion a year up for grabs, equal to 20% of the industry's total annual revenue. In phone service, about 6% of industry revenues are affected. While many other forces influence prices, this one factor—a complete denial by regulators of any return on stranded assets—would by itself cut electric rates 20% and local phone rates 6%. In reality, a cut that draconian will never happen.

Ultimately, the debate over who pays for stranded costs is a zero-sum game—a matter of fairness, not economics. There is no net benefit to society if shareholders pay a little more and customers a little less, for instance. The real benefits of efficiency and innovation will come when competition takes hold in the retail sale of electricity and in local phone service. Regulators and lawmakers, who have often been co-opted by the utilities they oversee,

should take this chance to show some fortitude. In return for taking some white elephants off utilities' hands, they should insist on measures to bring on genuine competition, as soon as possible.

Shareholders vs. Customers

Deregulation will substantially lower prices for electricity and local phone service—provided that utilities aren't allowed to recoup from customers the entire decline in value of their existing high-cost investments

	ELECTRIC UTILITIES	LOCAL PHONE COMPANIES
Decline in value of high-cost assets from increased competition	\$200 billion	\$30 billion
Decrease in rates if regulators deny companies compensation for the decline	20%	6%

DATA: BUSINESS WEEK

Coy is associate economics editor.

Spring, 1997, just might be a roadster-lover's nirvana: A trio of terrific new German two-seaters from BMW, Mercedes-Benz, and Porsche, all close to \$40,000, are arriving along with the first balmy breezes that inspire the yearning to flip back the top and go for a spin. Also making its debut is the much-pricier XK8 convertible, Jaguar's first new sports car in 21 years.

The XK8, with a base sticker of \$70,480, along with the XK8 coupe, beginning at \$65,480, belong to a more luxurious touring class than the new crop of spunky little roadsters. But all four drop-tops are solid driving machines, a far cry from the shake-and-rattle convertibles of the past.

LAUNCH. A few years ago, when BMW, Mercedes, and Porsche announced plans for the near-simultaneous launch of three new roadsters, skeptics wondered if the result would be a glut that would overwhelm demand in the waning segment. So far, though, all three are in high demand and are good enough to sustain the kind of long-lived enthusiasm for two-seaters that only the less expensive Mazda Miata has enjoyed in recent years.

The German luxury car-makers are also counting on the new models to bring younger customers into their showrooms for the first time. In hopes that those buyers will return for luxury sedans in future years, the manufacturers are leaning

EDITED BY EDWARD C. RAIG

A SNAZZY CROP OF DROP-TOPS



hard on dealers not to gouge customers by inflating prices while the new roadsters are in short supply.

The remarkably distinct personalities of the new en-

tries have allayed any fears that

the auto makers would end up fighting over the same customers. BMW's Z3, now available with a six-cylinder engine as well as the original four-banger, is likely to be the choice of the traditional roadster enthusiast. The Mercedes SLK is the classy one, with stylish lines

and a technology-packed chassis that will attract newcomers to the segment. Porsche's Boxster marks the company's long-awaited return to this niche and is sure to delight sports-car purists.

The Boxster certainly scores highest on the adrenaline meter. It is quick and extremely responsive on sharp turns. *Road & Track* magazine rated it the fleetest of the three at 6.1 seconds, zero to 60. And at high RPMs, the engine emits a satisfyingly throaty growl.

Starting from scratch, Porsche designed the most innovative car. Its placement of the 2.5-liter, six-cylinder engine between the axles, just behind

the seats, gives it race-car like weight balance. The Boxster's interior features a triple cluster of black gauges, trimmed in shiny black plastic.

Unclip a safety latch, and the Porsche's softtop automatically retracts in 12 seconds. There's also an optional 55-pound, lift-off hardtop. And the mid-engine arrangement allows for two trunks—front and back—that provide 9.1 cubic feet of top-down space, considerably more than the capacity of its rivals.

TOGGLE. Porsche lovers will insist on the five-speed manual transmission. But those planning to use the Boxster to commute in stop-and-go traffic might prefer the Tiptronic automatic transmission, a \$3,150 option that allows the driver to make manual shifts by toggling

HOT WHEELS



PORSCHE BOXSTER \$40,745

Placing the engine just behind the seats has created race-car-like weight balance and additional trunk space



JAGUAR XK8 \$70,480

*-dead gorgeous lines,
-red walnut console,
-ter, aluminum V-8,
290 silky-smooth horses*

sh on the steering wheel. The fact that Mercedes is offering the SLK with an automatic transmission is the clue that this car is ed for a completely dif- customer than the ster. Its sleek wedge e and creature comforts ound a sporty car for a ry buyer. Inside, the o instrument panel sports me-ringed gauges, and e's a snazzy, optional two- d leather interior. Mercedes has crammed the with such technological nctions as an automatically eactable hardtop. One touch 25 seconds later, the top dled itself into the trunk a praying mantis. Best of with the hardtop up, the is a solid, quiet coupe. n traction control and ed seats, the SLK can be en all year round, al-

though as a rear-wheel-drive model it won't perform well on the worst slick winter roads. You even get a glass rear window that folds down, too, instead of plastic that eventually cracks or goes cloudy.

SENSOR. One other new electronic advance solves the tricky problem of how to safely carry a child in a two-seater equipped with air bags. Mercedes, like Porsche, currently makes available a seat sensor system that automatically detects the presence of a child safety seat and deactivates the front air bag. The SLK requires a special \$150 seat sold by the manufacturer. Mercedes' system also features a sensor that disables the front and side air bags when no passenger is in the seat.

For all its style and wizardry, Mercedes' SLK is no slouch on the open road, either. Its air-compressor supercharger gives the inline four-cylinder engine a surprising kick, and the car takes curves as though it were glued to the road.

The four-cylinder on BMW's original Z3 didn't crank out quite enough horsepower to live up to the sports-car image when launched in 1995 as James Bond's latest wheels. The new 2.8 Z3's inline six-cylinder delivers a satisfying 51 extra horses, for a total of 189. Even with the bigger engine, the BMW costs about \$4,000 less than its rivals.



MERCEDES SLK \$40,295

A sports-luxe hybrid with traction control, heated seats, and a nifty retractable hardtop shell

the console. (The folks who build Jags in Coventry, England, are among the few who have learned to apply genuine wood so that it doesn't appear fake.)

The Jag XK8 is more than a pretty face. Powered by a new 4.0-liter, aluminum V-8 engine, it can deliver 290 horses. With its silky handling, smooth ride, and sense of barely leashed power, the Jag is a delight to drive.

QUIRKS. Still, it's a pity the car is marred by a few nagging defects. True, this Jag is a vast improvement over the trouble-plagued models of yore. But for around \$70,000, one expects more attention to detail. The model I tested had an annoying rattle and squeak near the rear wheel. And neither of the two key fobs worked, rendering the alarm and automatic door and trunk locks useless.

Perhaps the loose wood panel on the dash could be chalked up to that endearing Jaguar quirkiness, for which some of the initially puzzling knobs (for door locks and the like) and controls certainly qualify. And as in most convertibles, headroom and legroom are limited.

But why quibble? No one buys a Jaguar for ergonomic practicality. The same is true for the new crop of little roadsters. They're about image and the joy of driving—and all four admirably live up to those ambitions. *Katie Kerwin*

BMW Z3 2.8 \$36,470

Traditionalists will love the manual ragtop, serious matte-black interior, and peppy inline six cylinders

BMW is the holdout in offering only a manual ragtop. Unclamp two levers, give the Z3's top a gentle push, and the job is done. Snapping on the cover can be a bit of a struggle, though, and putting the top back up involves an awkward lean across the car to grab a center handle and hoist. But that's a quibble for those who scorn automatic tops. And the two-second top-down operation is speedier than any mechanical device—speedy enough to do at a stoplight.

The Z3's spare interior—matte black with a touch of wood on the console—is also aimed at those who disdain flash and frills. The trunk, though hardly capacious, will hold two pieces of luggage and a laptop computer.

With their colorful lineups of bright red, blue, and yellow two-seaters, the roadsters look like a spilled bag of M&Ms. By contrast, the sculpted lines of the Jaguar XK8 are drop-dead gorgeous. Inside, a vast expanse of gleaming burled walnut stretches across the dashboard and up

THIS IS NOT YOUR FATHER'S TRAFFIC SCHOOL

"How many of you thought the speed limit in the carpool lane was 55 miles per

hour—per person?" Reed Berry asks at the beginning of his eight-hour class. This California comedian-cum-traffic-school teacher uses one-liners to get the ball rolling, gently ribbing his students about speeding, running red lights, and various other moving violations.

Such offenses brought students to Berry's class, which is affiliated with the Improv comedy clubs in California and elsewhere. When a student explains that she got a speeding ticket while playing cards with a passenger, Berry quips: "Not only did you violate traffic laws, I think that you violated state gaming laws."

Whether you're guilty of speeding or tailgating, you can yuk it up at this school or a plethora of other interesting defensive driving courses across the country—in lieu of paying your fine and/or accruing points on your driver's license. Tuition costs \$20 to \$50 or more. In addition, you'll pay an administrative fee of about \$25 to the court.

STUDY AT HOME. Traffic schools used to be so deadly dull that they were like doing hard time. Straightforward programs still exist, of course, such as those run by the National Safety Council. But a few states will let drivers try more offbeat offerings. U.S. Interactive's take-home kit, for instance, can be rented for three days from Blockbuster Video for \$39.99. It comes with two videotapes and a small terminal unit that hooks into your phone jack. On-Line Interactive's \$34

home-study program lets folks take a traffic course via the Internet (www.onlinetraffic.com.) At Indoor Grand Prix in the Dallas-Fort Worth area, students of Mike Sullivan's class in defensive driving can burn rubber on go-karts during breaks.

Those who want to munch on pizza, chocolate, or ice cream while digesting rules about stop signs and turn signals will find classes that cater to those tastes in Southern California. Courses in the region are also offered in Spanish, Korean, and Vietnamese.

Laws vary widely by state—and not every state will allow you to attend traffic school rather than either paying your fine or having points added to your record. In some cases, violators must go to traffic court and ask the judge if they can attend traffic school instead. In other states, however, you can handle it by mail.

Florida motorists, for instance, just sign an affidavit that says they want to go to traffic school and mail it to the court with their fine, which is lowered by 18%.

Generally, you are not permitted to attend these courses more than once per year. Nor can you take classes to

avoid fines on the most serious violations, such as for reckless or drunk driving or speeding more than 25 mph over limits.

Classes last from four to eight hours over one or two days, and you often have to take a multiple-choice test at the course's end. Basic rules of the road and defensive-driving techniques are covered: how to change lanes, yield the right of way, and drive on slick roads.

A judge can order you to go to traffic school, of course, if you've amassed, say, three tickets in the past 12 months and your license is at risk of being suspended. However,

ment, however, may be Texas. The Lone Star State lets you clock up to 94 miles (70 is the speed limit) without forcing you to pay a ticket or add a single point to your record as long as you attend a six-hour class. What's more, that one visit to traffic school will also earn you a 10% annual discount for three years on your car's liability and collision coverage. Neil Boot, executive director of the public-safety group at the National Safety Council, contends that such a system wards poor drivers. If the state permits, drivers good or bad can sign up for the course just to get an insurance discount.

MIXED RESULTS.

Some three dozen other states allow insurers to offer up to a 15% annual discount for three years for those who attend traffic school. But many of these classes are only offered to folks age 55 and older. Generally, errant drivers can't reap both the discount and the reduction in points.

Does traffic school improve driver behavior? Research is often contradictory. Florida has found that, on average, drivers who attended a traffic school received 5% fewer citations and were involved in 10% fewer collisions than other motorists. But California concluded in a 1995 study that drivers who have taken the classes are 10.2% more likely to have an accident than those who simply paid their tickets.

While it may not be a long-term solution for all those habitually careless drivers out there, traffic school could get you off easy. And you might even have a few laughs. *Barbara Hetzer*



In one fell swoop, errant drivers get tickets erased and funny bones tickled



THE JOYS OF DRIVING A JUNKER

summer after-
ons, we would park
e battered '81
ick Skylark
even home plate and the
on-ivy patch. It was the
l backstop, **HOT WHEELS**
it came with
cruise control, even a de-
stereo. For a while, the
complained about the
ued ceiling, which draped
making the car feel like
inside of a tent. That was
y fixed with a staple gun.
when it came to vaca-
s, this Buick was perfect.
t broke down, we would
oly junk it and rent an-
er. No headaches with
e Cod mechanics. We
ed a disposable car.
the bottom-fishers of
merica's car market appre-
e the tremendous freedom
comes with driving a
ker. You buy the cheapest
ility insurance and forget
ut scratches and nicks.

Even locking the car is optional. Transportation, it seems, is almost free—until the day the junker starts coughing a little more than usual. That's when the neighbors, struggling with their car payments, finally get their chance to laugh.

And that's when America's economy drivers face the grim question: When to junk the junker?

SUNBIRD. First, some numbers. Unlike those smirking neighbors, with their \$22,000 Ford Tauruses or \$35,000 Saabs, you don't have much money stuck in your car. I paid \$1,500 for that Skylark, for instance, and replaced it with a \$2,000 Toyota. New cars depreciate more than that the moment they roll off the lot.

Still, junker owners, for all their investment wisdom, face dilemmas. Say the mechanic calls with news that the \$2,000 Pontiac Sunbird you bought two years ago needs

a new transmission, which will run \$1,500. In this case, breathe deeply and try to forget the words "resale value." You should never plow money into a junker with hopes of selling it. Simply think of the car in terms of transportation years. You've already gotten two years at \$1,000 per, plus maintenance. "If, by putting \$1,500 into it, you get another two years, it might be worth it," says Jack Gillis, author of *The Used Car Book* (\$12.95, HarperPerennial).

Of course, you don't want to junk the car two years from now with a gold-plated transmission. What you're looking for is something that will work for a couple of years and then, for all you care, fall apart with the rest of the car. Therefore, consider used parts. And see if you can find a mechanic who works off hours, at cut rates, as a "sider."

And when do you finally junk the junker? Tough call. With the improved quality of cars, mechanics say, you can toss out lots of the old rules about mileage. Plenty of cars now make it well past

100,000, and it's not just Volvos. The time to sell, which varies from car to car, is after you start getting nicked and dined to death—but before the car dies. Once stuck with a dead auto, you might be pressed to make a quick buy. This can quickly lead to another limping or dead wreck. Worse, dead cars are a tough sell: The number of eager buyers with tow trucks is discouragingly low.

The trick is to keep an eye out for a replacement while your junker is still purring. Spread the word to a trusted mechanic and friends. This is the soft buy approach. If it works, you skirt the expense

and intrusion of doing business through the classifieds. And if you're lucky, you can use the same informal network to sell the car you're replacing. How do you price your car? It's hardly rocket science: Simply ask for what you paid, and go down from there. Don't fret much over numbers. They're small.

If the soft style doesn't work, ratchet it up: Work the bulletin boards at churches, community centers, and local colleges. Consider putting a "For Sale" sign in your beater's back window. One painless way to sell a car is to offer your mechanic a piece of the take and have him sell it for you. I gave my mechanic \$150 for unloading a 1984 Toyota Tercel for \$1,300. No one can sell a car better than the person who knows it inside out.

DROPSY. Sometimes, of course, even the canniest junkmeisters wait too long. One sad day, my rusting Skylark took to napping. Three times it shut down with a dying whir and coasted, with stiff, powerless steering, until I coaxed it back into action. This dropsy spelled the end of Cape Cod barbecues for the Buick.

When it comes to selling a snoozy, oil-dripping, ceiling-stapled rust bucket, my advice is to forget it. If you can drive your old clunker to a junkyard, they might pay you \$200 or \$300 for it. But an easier solution is to give it away. A host of charities

accept old cars as donations. The National Kidney Foundation (800 488-CARS) even dispatches tow trucks and provides a form stating the appraised value of the donation. You can use this for a tax write-off. Sometimes, that's even handier than a solid backstop. *Steve Baker*

Running on Empty

Junkmeisters should:

- Avoid sentimental attachments to a car
- Forget about investing for resale value
- Buy used parts and use off-hour mechanics
- Shop early for a replacement

MAY 4-6, 1997
LAGUNA NIGUEL, CALIFORNIA

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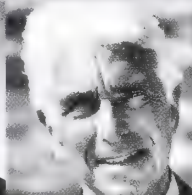
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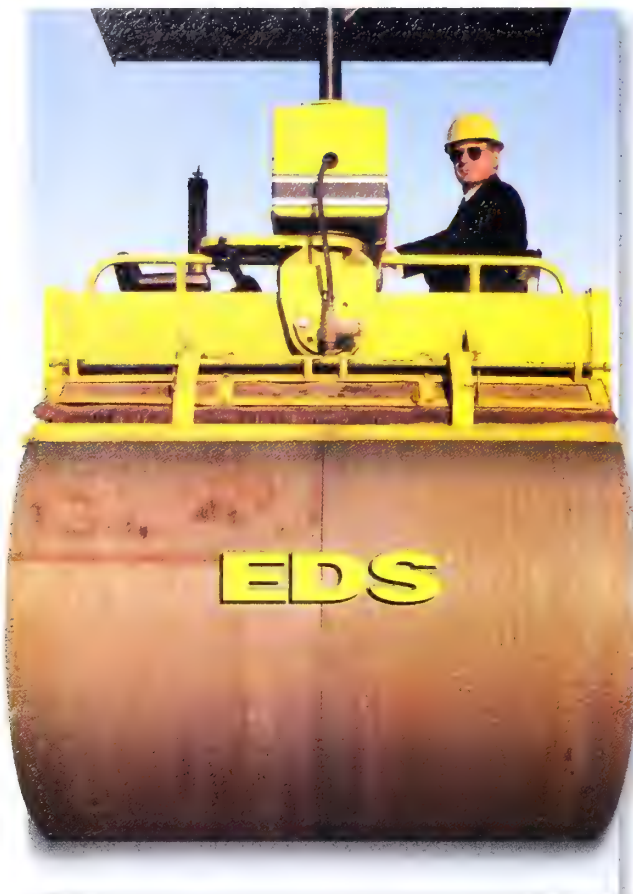
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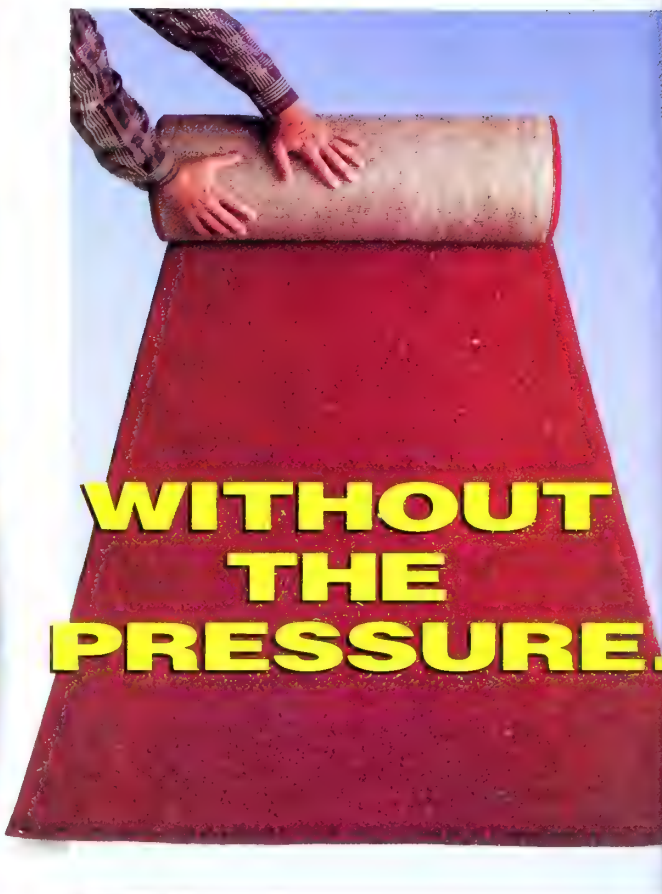
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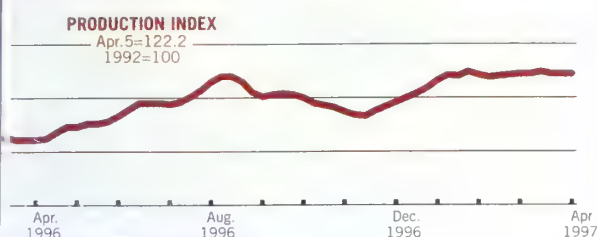
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Business Week Index

PRODUCTION INDEX

Change from last week: 0.0%
Change from last year: 5.2%



Production index was flat in the week of Apr. 5. Before calculation of the four-moving average, the index fell to 121.9 from 121.5. The index has been adjusted to reflect the benchmark revisions to the Federal Reserve's index of industrial production and new component weights. Historical data are available at Business Week Online at <http://www.businessweek.com> or on America Online at keyword: bw. for the production index in the current issue's Table of Contents.

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ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
CK PRICES (4/11) S&P 500	737.65	757.90	15.9
OPORATE BOND YIELD, Aaa (4/11)	7.74%	7.71%	1.8
INDUSTRIAL MATERIALS PRICES (4/11)	105.0	105.9	-4.6
FINANCIAL FAILURES (4/4)	NA	NA	NA
REAL ESTATE LOANS (4/2) billions	NA	NA	NA
VEHICLE SUPPLY, M2 (3/31) billions	\$3,893.6	\$3,880.4r	4.6
LEGAL CLAIMS, UNEMPLOYMENT (4/5) thous.	318	312r	-9.1

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1990=100), Dun & Street (failures of large companies), Federal Reserve, Labor Dept.

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
FEDERAL FUNDS (4/15)	5.61%	5.34%	5.17%
COMMERCIAL PAPER (4/16) 3-month	5.71	5.69	5.39
CERTIFICATES OF DEPOSIT (4/16) 3-month	5.73	5.70	5.36
FIXED RATE MORTGAGE (4/11) 30-year	8.27	8.30	8.28
ADJUSTABLE RATE MORTGAGE (4/11) one-year	6.06	6.04	5.92
LIBOR (4/11)	8.50	8.50	8.25

Sources: Federal Reserve, HSH Associates, Bloomberg Financial Markets

Seasonal data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

FEDERAL BUDGET

Friday, Apr. 21, 2 p.m. EDT ▶ The U.S. Treasury is expected to announce a deficit of \$35 billion for March, according to the median forecast of economists surveyed by International, a division of The McGraw-Hill Companies. The expected deficit would be much smaller than the \$11 billion reported in March, 1996. Though April is always the key month for trimming the yearly shortfall, the deficit for fiscal 1997, which began on Oct. 1, 1996, is on track to slip under \$100 billion. That would be the smallest gap since 1981. In 1996, Washington's red ink totaled \$107 billion. Revenues are running better than expected, especially personal

income-tax payments. Federal finances would look even rosier if not for huge interest payments—the bill for past borrowings. Federal interest payments now account for nearly 22% of all government outlays. Without them, Washington would have a surplus of more than \$230 billion.

UNEMPLOYMENT CLAIMS

Thursday, Apr. 24, 8:30 a.m. EDT ▶ New filings for state jobless benefits probably bumped up to 330,000 for the week ended Apr. 19. Claims averaged about 311,000 in March—the lowest four-week moving average in this expansion. They then rose to 318,000 for the first week in April. Still, unemployment claims have not risen

enough to suggest any weakening in the labor markets.

EXISTING HOME SALES

Friday, Apr. 25, 10 a.m. EDT ▶ The MMS survey forecasts that existing homes sold at an annual rate of 4.15 million in March. In February, resales unexpectedly jumped 9% to a 4.26 million pace. Unless the February number is revised sharply lower, resales in the first quarter averaged well above their fourth-quarter level. The housing market has been helped by mild weather in some regions and the push by some consumers to buy before mortgage rates rise further. But with rates well above 8%, homebuying is likely to hold steady in coming months.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (4/12) thous. of net tons	2,067	2,150#	4.1
AUTOS (4/12) units	113,575	110,706r	-6.1
TRUCKS (4/12) units	132,590	114,755r	17.2
ELECTRIC POWER (4/12) millions of kilowatt-hrs.	56,543	55,754#	2.9
CRUDE-OIL REFINING (4/12) thous. of bbl./day	14,207	14,338#	1.5
COAL (4/5) thous. of net tons	17,978#	21,395	-11.1
LUMBER (4/5) millions of ft.	487.5#	486.4	13.2
RAIL FREIGHT (4/5) billions of ton-miles	25.5#	27.4	0.8

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPAl, SFPaZ, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (4/16) \$/troy oz.	339.900	347.800	-13.1
STEEL SCRAP (4/11) #1 heavy, \$/ton	133.50	136.50	-4.3
COPPER (4/11) ¢/lb.	111.5	115.0	-6.7
ALUMINUM (4/11) ¢/lb.	76.0	78.5	0.0
COTTON (4/12) strict low middling 1-1/16 in., ¢/lb.	69.03	68.82	-19.8
OIL (4/15) \$/bbl.	19.53	19.05	-19.6
CRB FOODSTUFFS (4/15) 1967=100	242.98	243.65	-0.4
CRB RAW INDUSTRIALS (4/15) 1967=100	332.90	333.88	0.2

Sources: LONDON Wednesday final settling, Chicago market, *Metals Week*, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (4/16)	125.70	126.74	106.81
GERMAN MARK (4/16)	1.73	1.72	1.50
BRITISH POUND (4/16)	1.62	1.62	1.52
FRENCH FRANC (4/16)	5.81	5.80	5.10
ITALIAN LIRA (4/16)	1701.8	1699.3	1568.4
CANADIAN DOLLAR (4/16)	1.40	1.39	1.36
MEXICAN PESO (4/16)	7.893	7.884	7.425
TRADE-WEIGHTED DOLLAR INDEX (4/16)	106.6	106.6	97.36

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars Trade-weighted dollar via J.P. Morgan

This Week, Online

Business Week presents frequent live conferences and chats on America Online—your opportunity to ask questions about features from the magazine.

Sunday

With the coming of digital TV, will PCs merge into your TV or vice-versa? Talk with MIT's Lee McKnight and BW's Robert D. Hof. **Apr. 20 9 p.m. EST in the Globe**

Monday

The special problems of running—and selling—a family business: Another in the series of BW Enterprise chats for small business and entrepreneurs. **Apr. 21 8 p.m. EST in the BW Enterprise Chat Room**

Thursday

Getting your global MBA in the Wharton School's Lauder program: The director and a student team up to answer questions. **Apr. 24 8 p.m. EST in the Odeon**

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.

BusinessWeek **ONLINE**

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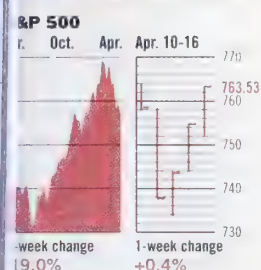
Business Week (ISSN 0007-7135) published weekly, except for one issue in January, by The McGraw-Hill Companies, Inc. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$49.95/year; Canada: Cdn. \$69/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08520.

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Investment Figures of the Week

STOCKS



COMMENTARY

at a week! First, a higher-than-expected producer price index triggered a sell-off, sending the Dow industrials to their lowest point so far this year—and long-term interest rates to their highest. Then, on April 10, the consumer price index came up with no sign of inflation, and the markets rallied in relief. But the crucial technology stocks are still losing ground. Despite some strong earnings reports, the tech-dominated SDAQ Composite index fell 1%, and the PSE Technology index lost 4.5% in value during the week.

U.S. MARKETS

	Latest	% change Week	Year
Dow Jones Industrials	6679.9	1.8	18.9
NASDAQ Combined Composite	1210.3	-3.1	7.6
S&P MidCap 400	251.5	-1.5	9.2
S&P SmallCap 600	137.3	-1.8	5.9
S&P SuperComposite 1500	163.4	0.1	16.9

SECTORS

	Latest	% change Week	Year
Bloomberg Information Age	227.2	-1.8	13.1
S&P Financials	85.1	-1.8	31.7
S&P Utilities	184.2	-0.7	-2.2
PSE Technology	239.6	-4.5	15.5

FOREIGN MARKETS

	Latest	% change Week	Year
London (FT-SE 100)	4294.6	0.1	12.3
Frankfurt (DAX)	3353.5	-0.2	32.1
Tokyo (NIKKEI 225)	18,031.2	1.9	-17.5
Hong Kong (Hang Seng)	12,581.3	1.2	14.0
Toronto (TSE 300)	5798.8	0.0	14.0
Mexico City (IPC)	3834.6	1.0	19.8

FUNDAMENTALS

	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.95%	1.92%	2.19%
S&P 500 P/E Ratio (Last 12 mos.)	19.6	20.1	18.8
S&P 500 P/E Ratio (Next 12 mos.)*	15.7	16.0	NA
First Call Earnings Surprise*	3.28%	5.25%	NA

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 200-day average	724.4	722.3	Positive
Stocks above 200-day average	51.0%	56.0%	Neutral
Options: Put/call ratio	0.72	0.60	Positive
Insiders: Vickers Sell/buy ratio	1.91	1.98	Positive

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS

	Last month %	Last 12 months %
Trucking	25.9	Semiconductors 60.1
Restaurants	11.9	Savings & Loans 50.4
Metal & Glass Containers	2.8	Cosmetics 47.9
Conglomerates	2.0	Invest. Banking/Bkgrge. 47.2
Specialty Printing	1.9	Household Products 42.9

WORST-PERFORMING GROUPS

	Last month %	Last 12 months %
Hospital Management	-18.0	Gold Mining -30.7
Photography/Imaging	-14.7	Machine Tools -26.6
Gold Mining	-14.5	Broadcasting -19.0
Personal Loans	-14.2	Engineering & Constr. -17.8
Defense Electronics	-12.2	Defense Electronics -15.9

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness

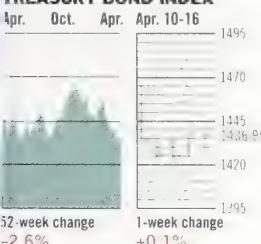
	Price	1-month change
IBM	137 7/8	-1 5/8
Applied Materials	47 3/4	-2 3/8
Micron Technology	39 1/4	-4 7/8
Compaq Computer	74 3/8	-2 1/2
Citicorp	106 7/8	-11 1/8
BankAmerica	106 1/8	-9 1/8

Decline ahead? Stocks with most significant selling on price strength

	Price	1-month change
Cisco Systems	50 1/8	1
Sun Microsystems	29 3/8	1/2
Cascade Communications	28 1/8	2 3/8
PepsiCo	32 7/8	2
Vivus	44 5/8	7/8
Novell	9 9/16	1

INTEREST RATES

TREASURY BOND INDEX



Data: Bloomberg Financial Markets

KEY RATES

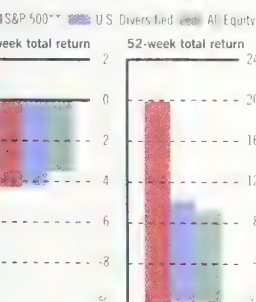
	Latest	Week ago	Year ago
MONEY MARKET FUNDS	5.04	5.02	4.85
90-DAY TREASURY BILLS	5.28	5.24	4.95
6-MONTH BANK CDS	5.18	5.13	4.88
1-YEAR TREASURY BILLS	5.95	5.98	5.48
10-YEAR TREASURY NOTES	6.88	6.91	6.48
30-YEAR TREASURY BONDS	7.10	7.11	6.78
LONG-TERM AA INDUSTRIALS	7.59	7.61	7.37
LONG-TERM BBB INDUSTRIALS	7.96	7.96	7.79
LONG-TERM AA TELEPHONES	7.82	7.82	7.66

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	Last week	30-yr. bond Latest week	Last week
GENERAL OBLIGATIONS	5.09%	5.07%	5.65%	5.63%
PERCENT OF TREASURIES	73.99	73.59	79.60	79.29
TAXABLE EQUIVALENT	7.38	7.35	8.19	8.16
INSURED REVENUE BONDS	5.27	5.24	5.92	5.89
PERCENT OF TREASURIES	76.61	76.06	83.40	82.95
TAXABLE EQUIVALENT	7.64	7.59	8.58	8.54

MUTUAL FUNDS



Data: Morningstar, Inc.

EQUITY FUNDS

Leaders	Four-week total return	%	Laggards	Four-week total return	%
Rydex Urss	4.6		IDS Precious Metals B	-19.1	
Matthews Korea	4.3		Invesco Strategic Gold	-18.6	
Merrill Technology D	4.3		Midas	-18.4	
Morgan Stanley Latin Amer. A	2.7		Morgan Stanley Inst. Gold A	-18.1	
Diversified Aggr. Equity	2.6		Bull & Bear Gold Investors	-17.9	
Leaders	52-week total return	%	Laggards	52-week total return	%
Morgan Stan. Inst. Lat. Am. A	50.0		DFA Japanese Small Co.	-47.6	
Vontobel Eastern Europ. Eq.	49.6		Steadman Technology Grth.	-46.0	
Morgan Stan. Latin Amer. A	48.8		United Svcs. Gold Shares	-41.7	
Delaware Pooled Real Estate	43.7		Fidelity Japan Small Co.	-40.8	
CGM Realty	40.2		Matthews Korea	-34.5	

EQUITY FUND CATEGORIES

Leaders	Four-week total return	%	Laggards	Four-week total return	%
Latin America	0.9		Precious Metals	-12.7	
Technology	-1.1		Natural Resources	-6.5	
International Hybrid	-1.2		Health	-6.0	
Europe	-1.3		Small-cap Growth	-5.0	
Foreign	-1.5		Mid-cap Growth	-4.9	
Leaders	52-week total return	%	Laggards	52-week total return	%
Latin America	31.4		Precious Metals	-24.4	
Real Estate	31.0		Japan	-22.4	
Financial	27.7		Diversified Pacific/Asia	-7.2	
Europe	18.4		Small-cap Growth	-5.8	
Large-cap Blend	16.0		Pacific/Asia ex-Japan	-3.9	

Data are as of market close Wednesday, Apr. 16, 1997, unless otherwise indicated. Industry groups include S&P 500 companies only. Fundamentals, technical indicators, Bloomberg money

flow analysis, and mutual fund returns are as of Apr. 15. For a more detailed explanation, write to us or E-mail figures@businessweek.com. NA=Not available **Vanguard Index 500 Fund

TIGER, TIGER, BURNING BRIGHT

He is, like the baseball hero of Bernard Malamud's 1952 classic sports novel, a natural. The moment the 21-year-old Tiger Woods shattered the Masters Tournament record and stepped off the 18th hole to fall weeping into his father's arms, an innocent boy once again, he entered the realm of mythic hero. Woods now stands at that pinnacle of initiative, physical prowess, resolve, opportunity, and raw commercialism that embodies American sports and much of American culture.

Every so often, a figure of Woods's stature emerges out of the soup of American culture—the embodiment of the strengths, and sometimes the weaknesses, of the nation. In the process of transcending the game, they transform society's definition of "best there ever was." Early in this century, Babe Ruth, a roughneck orphan from Baltimore, changed baseball into a home-run, power game. Michael Jordan, cut from his high-school basketball team, took the game—and the sports business—to new heights of both glory and commercialization. Now, an outsider to golf, a very young Asian-

African American in an older white man's game, comes from nowhere to completely dominate the sport. Polite, soft-spoken, serious, Woods stands in direct contrast to the loud, head-butting, trash-talking sports millionaires on TV. Woods's success gives Americans a renewed image of hope and a comforting sense that the American Dream still works.

That's a lot of power vested in a 21-year-old kid—power that can use for ill or good. Many great sports figures have ruined their game by getting seduced by the dark side of sports, the obsession with "show me the money." Woods has already made a reported \$40 million in product endorsements from Nike Inc. Now his potential for wealth is virtually limitless. The moral of Malamud's novel is that the sublime talents and resources of mythic heroes like Woods are ultimately corrupted and destroyed by such influences. Somehow, that doesn't seem likely with Tiger. We hope that he wisely manages his just rewards, and remains always the beacon of possibility he has become for millions.

STOP THE PLAGUE OF INSIDER TRADING

Doesn't anyone worry about getting caught at insider trading anymore? In April, call options in Tambrands Inc. soared a week before Procter & Gamble Co. announced it would acquire the company. Ditto for call options in Alex. Brown & Sons Inc., which skyrocketed, along with the shares, days before Bankers Trust said it was buying the regional brokerage firm. Earlier in February, the volume in put options in Scholastic Corp. rose, just days before the children's book publisher released negative news. That sent Scholastic's stock sharply down, making the holders of the puts that much richer. In every case, a handful of investors appeared to have news of impending corporate events that the rest of the investing public was denied. Or perhaps they were all just lucky? Right. Hello, Securities & Exchange Commission. Where are you?

True, the SEC is hampered by the vagueness in the law. There is no better example of this than what is currently taking place in front of the Supreme Court. Last year, the U.S. Court of Appeals for the Eighth Circuit in St. Louis cut half the heart out of the SEC's "misappropriation theory." During the wild and woolly '80s, the SEC expanded the definition of illegal insider trading to include the misappropriation of nonpublic information to trade stock in a company that someone did not have a legal relationship with or work for. Before that, people had to work for or have a direct legal relationship with a company to be held liable.

The appeals court overturned the conviction of a Minneapolis attorney who used the knowledge that his law firm was representing Grand Metropolitan PLC in a secret bid for Pillsbury Co. He bought options in Pillsbury and made a

cool \$4.3 million. The SEC argued that the lawyer misappropriated confidential, nonpublic information to decide to buy shares in the target company and busted him. The appeals court ruled that the lawyer owed no fiduciary responsibility to the target, Pillsbury, and exonerated him. In effect, the judge ruled that if two lawyers, one who works for the target company and one for the bidder, learn of an impending merger and each buys stock in the target, the first goes to jail while the other gets to play Pebble Beach. The exact same behavior is treated differently. Under these rules, there is good chance that the government's case against Ivan Boesky for illegal insider trading would have unraveled.

The Supreme Court now has to decide the issue. The real problem is that insider trading is not specifically defined in any law. The whole notion is based on court rulings under Section 10(b) of the Securities Exchange Act of 1934, which makes it a crime to use "any manipulative or deceptive device" in connection with "the purchase or sale of any security." Pretty vague stuff. Too vague.

Nonpublic information is just that—not available to the investing public. People trading on it, be they connected to the hunter or the quarry, should be prosecuted. A level playing field with equivalent access to information must be preserved for everyone in the marketplace if it is to retain its legitimacy and credibility. The U.S. Supreme Court should understand this principle and rule for the SEC. The SEC, in turn, should start clamping down on what appears to be a recent plague of insider trading. And Congress should finally get on the stick and write some reasonably clear legislation to make busting the stock crooks easier.

